IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached prospectus (the "**Prospectus**") and you are therefore advised to read this carefully before reading, accessing or making any other use of the attached Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access. You acknowledge that this electronic transmission and the delivery of the attached Prospectus is confidential and intended only for you and **you agree you will not forward, reproduce or publish this electronic transmission or the attached Prospectus to any other person.**

The Prospectus and the offer when made are only addressed to and directed at persons in member states of the European Economic Area ("**EEA**") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") ("**Qualified Investors**"). In addition, in the United Kingdom ("**UK**"), this Prospectus is being distributed only to, and is directed only at, Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") and Qualified Investors falling within Article 49 of the Order, and (ii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as "**relevant persons**"). This Prospectus must not be acted on or relied on (i) in the UK, by persons who are not relevant persons, and (ii) in any member state of the EEA other than the UK, by persons who are not Qualified Investors. Any investment or investment activity to which this Prospectus relates is available only to (i) in the UK, relevant persons, and (ii) in any member state of the EEA other than the UK, Qualified Investors, and will be engaged in only with such persons.

THIS PROSPECTUS AND THE SECURITIES REFERENCED HEREIN MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" TO PERSONS OTHER THAN UNITED STATES PERSONS AS DEFINED IN, AND AS PERMITTED BY, REGULATION S UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS ("**QIBs**") AS DEFINED IN AND IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**"). ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES A PUBLIC OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES EXCEPT (1) IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QIB OR (2) IN AN OFFSHORE TRANSACTION TO PERSONS OTHER THAN UNITED STATES PERSONS IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your representation: The attached Prospectus is delivered to you at your request and on the basis that you have confirmed to J.P. Morgan Securities plc and Merrill Lynch International (the "**Joint Lead Managers**") and Joint Stock Company Bank of Georgia (the "**Bank**") that (i) you are either (a) located outside United States and not a US person (as defined in Regulation S under the Securities Act), or (b) a QIB; (ii) if you are in the UK, you are a relevant person; and (iii) if you are in any member state of the EEA other than the UK, you are a Qualified Investor; (iv) if you are acting a financial intermediary (as that term is used in Article 3(2) of the Prospectus Directive), the securities acquired by you as a financial intermediary in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, any person in circumstances which may give rise to an offer of any securities to the public other than their offer or resale in any member state of the EEA which has implemented the Prospectus Directive to Qualified Investors (as defined in the Prospectus Directive); or (v) you are outside of the UK or EEA (and the electronic mail addresses that you gave us and to which this Prospectus has been delivered are not located in such jurisdictions) or (vi) you are a person into whose possession this Prospectus may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located.

This Prospectus has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Bank, the Joint Lead Managers nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version. By accessing the linked Prospectus, you consent to receiving it in electronic form.

A hard copy of the Prospectus will be made available to you only upon request to the Joint Lead Managers.

You are reminded that you have accessed the attached Prospectus on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this Prospectus, electronically or otherwise, to any other person.

Restriction: Nothing in this electronic transmission constitutes an offer of securities for sale to persons other than the specified qualified institutional buyers described above and to whom it is directed and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

To the fullest extent permitted by law, none of the Joint Lead Managers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by any of them or on its behalf in connection with the Bank or the issue and offering of the securities described herein. Each Joint Lead Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

The Joint Lead Managers are acting exclusively for the Bank and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of this Prospectus) as its client in relation to the offer and will not be responsible to anyone other than the Bank for providing the protections afforded to its clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

You are responsible for protecting against viruses and other destructive items. Your receipt of the electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Joint Stock Company Bank of Georgia

(incorporated in Georgia with limited liability)

US$150,000,000 7.75% Notes due 2017 to be consolidated and form a single series with the US$250,000,000 7.75% Notes due 2017

Issue Price 105.249%

(plus accrued interest from and including 5 July 2013 to but excluding the Closing Date (as defined below))

The US$150,000,000 7.75% Notes due 2017 (the "**Further Notes**") will be issued by Joint Stock Company Bank of Georgia ("**Bank of Georgia**" or the "**Bank**") and will be consolidated and form a single series with the US$250,000,000 7.75% Notes due 2017 issued on 5 July 2012 (the "**Existing Notes**" and, together with the Further Notes, the "**Notes**"). Interest on the Further Notes will accrue at the rate of 7.75% and will be payable semi-annually in arrear on 5 January and 5 July in each year, commencing on 5 January 2014.

The Notes mature on 5 July 2017 at their principal amount, together with (if applicable) accrued and unpaid interest thereon, subject to earlier redemption in whole, at their principal amount, together with (if applicable) accrued and unpaid interest thereon, at the option of the Bank at any time in the event of certain changes affecting taxation in Georgia. See "*Terms and Conditions of the Notes—Redemption and Purchase*".

The Notes will constitute unsecured and unsubordinated obligations of the Bank (subject as described in Condition 4(a) (Negative Pledge)). See "*Terms and Conditions of the Notes—Status*".

AN INVESTMENT IN THE FURTHER NOTES INVOLVES A HIGH DEGREE OF RISK. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 5 OF THIS PROSPECTUS BEFORE INVESTING IN THE FURTHER NOTES.

Application has been made to the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the Further Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Further Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). References in this Prospectus to any Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. The Existing Notes are admitted to listing on the Official List and to trading on the Market.

The denomination of the Further Notes shall be US$200,000 and integral multiples of US$1,000 in excess thereof.

The Further Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**US Securities Act**"), or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. The Further Notes are being offered and sold outside the United States in accordance with Regulation S under the US Securities Act ("**Regulation S**") and within the United States to qualified institutional buyers ("**QIBs**") in reliance on Rule 144A under the US Securities Act ("**Rule 144A**"). Prospective purchasers are hereby notified that sellers of Further Notes may be relying on the exemption from the provisions of Section 5 of the US Securities Act provided by Rule 144A. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this Prospectus. Any representation to the contrary is a criminal offence. The Further Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the US Securities Act and applicable state securities laws pursuant to registration thereunder or exemption therefrom. For a more complete description of restrictions on offers, sales and transfers, see "*Subscription and Sale*" and "*Transfer Restrictions*".

The Further Notes that are being offered and sold in accordance with Regulation S (the "**Regulation S Notes**") will initially be represented by a Regulation S global certificate (the "**Regulation S Global Certificate**") in registered form, without interest coupons attached, which will be registered in the name of a nominee for and will be deposited with a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on or about 6 November 2013 (the "**Closing Date**"). Further Notes that are offered and sold in reliance on Rule 144A (the "**Rule 144A Notes**") will initially be represented by beneficial interests in a restricted global certificate (the "**Rule 144A Global Certificate**" and, together with the Regulation S Global Certificate, the "**Global Certificates**") in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with a custodian for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company ("**DTC**"). Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their account holders. Definitive notes in respect of beneficial interests in the Regulation S Global Certificate and the Rule 144A Global Certificate ("**Regulation S Definitive Certificates**" and "**Rule 144A Definitive Certificates**", respectively, and, together, the "**Definitive Certificates**") will not be issued except as described under "*Terms and Conditions of the Notes*".

The Notes have been rated "BB-" by Fitch Ratings, Ltd. ("**Fitch**"), "Ba3" by Moody's Investors Service, Inc. ("**Moody's**") and "BB-" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("**Standard & Poor's**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Credit ratings included or referred to in this Prospectus have been issued by Fitch, Moody's and Standard & Poor's, each of which is established in the European Union and is registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

Joint Lead Managers

BofA Merrill Lynch **J.P. Morgan**

Prospectus dated 4 November 2013

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Bank, the Bank and its subsidiaries and affiliates taken as a whole and the Further Notes. The Bank (the "**Responsible Person**") accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Bank (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of J.P. Morgan Securities plc or Merrill Lynch International (each a "**Joint Lead Manager**" and, together, the "**Joint Lead Managers**") or the Bank to subscribe or purchase any of the Further Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Bank and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of Further Notes and distribution of this Prospectus, see "*Transfer Restrictions*" and "*Subscription and Sale*".

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Bank or the Joint Lead Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Bank since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Bank since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Further Notes is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

None of the Joint Lead Managers, Citicorp Trustee Company Limited (the "**Trustee**"), the Agents (as defined below) nor any of their respective directors, affiliates, advisers or agents has made an independent verification of the information contained in this Prospectus in connection with the issue and offering of the Further Notes and no representation or warranty, expressed or implied, is made by the Joint Lead Managers, the Trustee or any of their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information.

Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether relating to the past or the future, by the Joint Lead Managers, the Trustee, the Agents or any of their respective directors, affiliates, advisers or agents in any respect. Furthermore, none of the Joint Lead Managers nor the Trustee makes any representation or warranty or assumes any responsibility, liability or obligation in respect of the legality, validity or enforceability of the Further Notes, the performance and observance by the Issuer of its obligations in respect of the Further Notes or the recoverability of any sums due or to become due from the Issuer under the Further Notes or the accuracy or completeness of the information contained in this Prospectus.

In making any investment decision, investors must rely on their own examination of the Bank, Georgia, the Further Notes and the terms of this offering, including the merits and risks involved. See "*Risk Factors*". Each potential investor must determine the suitability of an investment in the Further Notes in light of such investor's own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Further Notes, the merits and risks of investing in the Further Notes and the information contained in this Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Further Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Further Notes, including where the currency for principal and interest payments (the US dollar) is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Further Notes and be familiar with the behaviour of the financial markets in which such investor participates; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Investors should not construe anything in this Prospectus as legal, business or tax advice. Each investor should consult its own advisers as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations. The Further Notes have not been approved or disapproved by any US federal or state securities commission or regulatory authority. In addition, no US federal or state securities commission or regulatory authority has confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

This Prospectus does not, and is not intended to, constitute or contain an offer to sell or solicitation of an offer to purchase the Further Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Further Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Persons into whose possession this Prospectus may come are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe such restrictions. This Prospectus may only be used for the purpose for which it is published. Further information with regard to restrictions on offers and sales of the Further Notes and the distribution of this Prospectus is set out under "*Subscription and Sale*" and "*Transfer Restrictions*".

The Further Notes have not been and will not be registered under the US Securities Act and are subject to US tax law requirements. Subject to certain exceptions, Further Notes may not be offered, sold or delivered within the United States or to US persons.

The Trust Deed provides that the Trustee will be required to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified and/or pre-funded and/or secured to its satisfaction. It may not be possible for the Trustee to take certain actions and accordingly in such circumstances the Trustee will be unable to take such actions, notwithstanding the provision of an indemnity and/or prefunding and/or security to it, and it will be for Noteholders to take such actions directly.

In connection with the issue of the Further Notes, J.P. Morgan Securities plc (the "**Stabilising Manager**") (or any person acting on behalf of any Stabilising Manager) may over-allot Further Notes or effect transactions with a view to supporting the market price of the Further Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Further Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Further Notes and 60 days after the date of the initial allotment of the Further Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or any person acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.

ADDITIONAL INFORMATION

The Bank has agreed that, so long as any Further Notes are "restricted securities" within the meaning of Rule 144(a)(3) of the US Securities Act, the Bank will, during any period in which it is neither subject to Section 13 or 15(d) of the US Securities Exchange Act of 1934, as amended (the "**US Exchange Act**"), nor exempt from reporting thereunder pursuant to Rule 12g3-2(b) under the US Exchange Act, provide to any holder or beneficial owner of any such "restricted security", or to any prospective purchaser of such restricted security designated by such holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) of the US Securities Act upon the request of such holder or beneficial owner.

This Prospectus is being furnished by the Bank in connection with an offering exempt from the registration requirements of the Securities Act solely for the purpose of enabling a prospective investor to consider the acquisition of Further Notes described herein. The information contained in this Prospectus has been provided by the Bank and other sources identified herein. This Prospectus is being furnished on a confidential basis to QIBs in the United States. Any reproduction or distribution of this Prospectus, in whole or in part, in the United States and any disclosure of its contents or use of any information herein in the United States for any purpose, other than considering an investment by the recipient in the Further Notes offered hereby, is prohibited. Each potential investor in the Further Notes, by accepting delivery of this Prospectus, agrees to the foregoing.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

PURSUANT TO INTERNAL REVENUE SERVICE CIRCULAR 230, WE HEREBY INFORM PROSPECTIVE INVESTORS THAT THE DESCRIPTION SET FORTH HEREIN WITH RESPECT TO US FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DESCRIPTION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE US INTERNAL REVENUE CODE. SUCH DESCRIPTION WAS WRITTEN TO SUPPORT THE MARKETING OF THE FURTHER NOTES. TAXPAYERS SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

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OVERVIEW OF THE OFFERING

This overview below describes the principal terms of the Further Notes. This overview does not purport to be complete and is qualified in its entirety by the remainder of this Prospectus. See "Terms and Conditions of the Notes" for a more detailed description of the Further Notes.

The Offer	Offering of US$150,000,000 7.75% Notes due 2017, which will be consolidated and form a single series with the Existing Notes. The Further Notes are being offered by the Bank (i) in the United States to certain qualified institutional buyers ("**QIBs**") (as defined in Rule 144A under the Securities Act) in reliance on Rule 144A under the Securities Act; and (ii) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.
Issuer	Joint Stock Company Bank of Georgia.
Joint Lead Managers	J.P. Morgan Securities plc and Merrill Lynch International
Trustee	Citicorp Trustee Company Limited
Principal Paying Agent	Citibank, N.A. London Branch
Registrar and Transfer Agent	Citigroup Global Markets Deutschland AG
Issue Price	105.249% of the principal amount of the Further Notes.
Interest	The Notes bear interest at the rate of 7.75% per annum from and including 5 July 2012 to but excluding 5 July 2017. Interest on the Notes will be payable semi-annually in arrear on 5 January and 5 July in each year, commencing on 5 January 2014.
Status and Ranking of the Notes	The Notes constitute unsecured and unsubordinated obligations of the Bank (subject as described in Condition 4(a) (*Negative Pledge*)) and shall at all times rank *pari passu* and without preference amongst themselves. The Notes shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least *pari passu* in right of payment equally with all other unsubordinated creditors of the Bank.
Form	The Further Notes will be issued in registered form, without coupons attached, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. The Further Notes will be represented by interests in a Regulation S Global Certificate and a Rule 144A Global Certificate, each in registered form without coupons. The Regulation S Global Certificate will be deposited with, and registered in the name of, a nominee for the common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Global Certificate will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of

DTC. Ownership interest in the Regulation S Global Certificate and the Rule 144A Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg. The Global Certificates will be exchangeable for Definitive Certificates only in the limited circumstances described under "*Overview of Provisions Relating to the Notes in Global Form*".

Redemption.. Subject to early redemption or acceleration, the Notes will be redeemed on 5 July 2017.

The Notes may be redeemed at the option of the Bank in whole, but not in part, at any time upon giving notice to the Noteholders, at their outstanding principal amount together with accrued and unpaid interest to the date of redemption in the event of certain changes affecting taxation in Georgia. See Condition 6 (*Redemption and Purchase*).

Negative Pledge and Other Covenants .... Condition 4 (*Covenants*) contains a negative pledge; covenants limiting mergers by the Bank, disposals by the Bank and its Material Subsidiaries (as defined in the Conditions) and transactions between the Bank, its Material Subsidiaries and its Affiliates (as defined in the Conditions); financial covenants and other covenants. See "*Terms and Conditions of the Notes—Condition 4* (*Covenants*)".

Event of Default... If an Event of Default (as defined in Condition 9 (*Events of Default*)) has occurred, the Trustee may give notice that the Notes are, and the Notes shall immediately become, due and payable at 100% of the principal amount together with (if applicable) accrued interest. See "*Terms and Conditions of the Notes—Condition 9*".

Credit Ratings .... The Bank has ratings of "B1" and "Ba3" long-term and "Not-Prime" short-term foreign and local currency deposits, respectively, and a "D-" Financial Strength rating from Moody's Investors Service, Inc. ("**Moody's**"). Moody's rating outlook for the Bank is stable. The Bank has ratings of "BB-" for foreign and local currency issuer default, "B" for short-term foreign and local currency deposits, viability rating "bb-" and support "4" from Fitch Ratings plc ("**Fitch**"). Fitch's rating outlook for the Bank's issuer default ratings are stable. The Bank has ratings of "BB-" long-term and "B" short-term for counterparty credit from Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("**Standard & Poor's**"). Standard & Poor's rating outlook for the Bank is stable. The Bank is the only commercial bank in Georgia rated by three international rating agencies.

The Notes have been rated "BB-" by Fitch, "Ba3" by Moody's and "BB-" by Standard & Poor's. On 6 October 2010, Moody's assigned first time Ba3/Not-Prime foreign and local currency issuer ratings to Georgia with a stable outlook. On 22 November 2011,

	Standard & Poor's raised Georgia's long-term foreign and local currency ratings from "B+" to "BB-" and, on 15 December 2012, Fitch upgraded Georgia's sovereign long-term issuer default ratings to "BB-" from "B+". Each of Standard & Poor's, Fitch and Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of securities do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Bank could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Withholding Tax or Increased Costs; Gross up..........	All payments of principal and interest by or on behalf of the Bank in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Georgia or any authority therein or thereof having power to tax, in accordance with "*Terms and Conditions of the Notes—Condition 8 (Taxation)*", unless such withholding is required by law, in which event, the Bank shall, save in certain circumstances provided in "*Terms and Conditions of the Notes—Condition 8 (Taxation)*", pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required.
Use of Proceeds	The net proceeds received by the Bank from the issuance of the Further Notes will be used for issuing loans, re-financing existing liabilities, funding acquisitions (if appropriate opportunities arise) and other general working capital purposes. See "*Use of Proceeds*".
Listing and Admission to Trading..............................	Applications have been made to the UK Listing Authority for the Further Notes to be admitted to listing on the Official List and to the London Stock Exchange for the Further Notes to be admitted to trading on the Market. The Existing Notes are admitted to listing on the Official List and to trading on the Market.

Selling Restrictions	The Further Notes have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States, and may not be offered or sold within the United States except to QIBs in reliance on the exemption from the registration requirements of the US Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. The offer and sale of the Further Notes is also subject to restrictions in Georgia, the European Economic Area and the United Kingdom. See "*Subscription and Sale*".
Governing Law	The Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law.
Arbitration and Jurisdiction	The Notes and the Trust Deed provide that disputes are to be resolved by arbitration in London, England or, at the option of the Trustee, by submission to the English Courts.
Risk Factors	Prospective purchasers of Notes should consider carefully all of the information set forth in this Prospectus and, in particular, the information set forth under "*Risk Factors*" before making an investment in the Notes.
Security Codes	Regulation S Notes: ISIN: XS0783935561 Common Code: 078393556 Rule 144A Notes: ISIN: US373122AA85 Common Code: 061917233 CUSIP: 373122AA8

RISK FACTORS

An investment in the Notes involves certain risks. Prior to making an investment decision, prospective purchasers of Notes should carefully read this entire Prospectus. In addition to the other information in this Prospectus, prospective investors should carefully consider, in light of their own financial circumstances and investment objectives, the following risks before making an investment in the Notes. Any of the risks described below could have a material adverse effect on the Group's business, financial condition and results of operations. If any of the following risks actually occurs, the market value of the Notes may be adversely affected. In addition, factors that are material for the purpose of assessing the market risks associated with the Notes are also described below. Although the Bank believes that the risk factors described below represent the principal risks inherent in investing in the Notes, there may be additional risks and uncertainties that the Bank currently considers immaterial or of which the Bank is currently unaware, and any of these risks and uncertainties could have similar effects to those set forth below. Accordingly, the Bank does not represent that the statements below regarding the risks of holding any Notes are exhaustive.

Macroeconomic Risks and Political Risks Related to Georgia

Difficult global economic conditions have had, and may continue to have, a material adverse effect on the Group

As described in more detail below, the Group conducts its operations mainly in Georgia, where most of its customers and assets are located. Nevertheless, the Group's business and performance are affected by global macroeconomic and market conditions. In 2008, the global economy entered the most severe downturn in 80 years, with the financial services industry facing unprecedented turmoil. A shortage of liquidity, limited availability of funding, pressure on capital, deteriorating asset quality and significant price volatility across a wide range of asset classes put financial institutions, including the Group, under considerable pressure. Many developed economies entered into recession and growth slowed in many emerging economies, including Georgia.

The financial crisis was accompanied by a number of related developments, including an erosion of confidence in financial institutions, increased currency volatility, increased counterparty risk and the risk of systemic failures. Such circumstances have caused disruptions in financial markets worldwide, leading to liquidity and funding difficulties in the international banking system. Access to capital, the credit markets, foreign direct investment ("**FDI**") and other forms of liquidity were significantly impaired and the cost of financing for financial institutions increased considerably. As a result, the cost of borrowing in the wholesale debt markets increased for the Group, the debt capital markets were effectively closed or severely restricted to banks in emerging markets and certain international development financial institutions ("**DFIs**") (being financial institutions established (or chartered) by more than one country which are subject to international law and whose owners or shareholders are generally national governments, including, among others, the European Bank for Reconstruction and Development ("**EBRD**") and the International Finance Corporation ("**IFC**")), became the principal source of long-term funding for the Group. The financial crisis also had a significant adverse effect on the valuation of assets and the capital position of many financial institutions globally.

Although global markets showed signs of improvement in 2010, during 2011 there was turmoil in the European banking system and many sovereign credit ratings were lowered (with Standard & Poor's cutting the long-term US credit rating by one notch to AA+ on 5 August 2011). Certain EU member states, particularly Greece, Spain, Ireland, Italy, Portugal and Cyprus, experienced fiscal crises. In addition, during 2012 and the first half of 2013, there were increased concerns that these and other countries may experience "double-dip" or prolonged recessions and economic volatility continued. These developments created an unfavourable environment for the banking sector, both globally and in Georgia, which is ongoing and could have a material adverse effect on the Group's business, financial condition and results of operations.

Regional tensions could have an adverse effect on the local economy and the Group

Georgia, which is bordered by Russia, Azerbaijan, Armenia and Turkey, could be adversely affected by political unrest within its borders and in surrounding countries. In particular, Georgia has had ongoing disputes in the breakaway regions of Abkhazia and the Tskhinvali Region/South Ossetia and with Russia since the restoration of its independence in 1991. These disputes have led to sporadic violence and breaches of peace-keeping operations. In August 2008, the conflict in the Tskhinvali Region/South Ossetia escalated as Georgian troops engaged with local militias and Russian forces that crossed the international border, and Georgia declared a state of war (the "**2008 Conflict**"). Although Georgia and Russia signed a French-brokered ceasefire that called for the withdrawal of Russian forces later that month, Russia has recognised the independence of the breakaway regions and tensions remain as Russian troops continue to occupy Abkhazia and the Tskhinvali Region/South Ossetia. For example, in summer 2013 Russian border guards erected fences along portions of the demarcation line between Georgia and South Ossetia and, although the erection of further fences has been suspended following diplomatic efforts, there is no assurance that such further fencing will not resume which could, in turn, further increase tensions. Russia is also opposed to the eastward expansion of the North Atlantic Treaty Organisation, potentially including ex-Soviet republics such as Georgia. The Georgian government has taken certain steps toward improving relations with Russia, however, these have not resulted in any formal or legal changes in the relationship between the two countries. In addition, relations between Georgia's principal neighbours, Azerbaijan and Armenia, remain tense, and there are sporadic instances of violence between these two countries. Any future deterioration or worsening of Georgia's relationship with Russia, including those related to border and territorial disputes, any major changes in Georgia's relations with Western governments and institutions (in particular in terms of national security), any changes in Georgia's importance to Western energy supplies, any changes in the amount of aid granted to Georgia or the ability of Georgian manufacturers to access world export markets, or any significant deterioration in relations between Azerbaijan and Armenia, may have a negative effect on the political and economic stability of Georgia, which, in turn, could have a material adverse effect on the Group's business, financial condition and results of operations.

As most of the Group's businesses operate only within Georgia, the Group's success is dependent on a number of economic, political and other factors affecting Georgia that are beyond its control

Georgia accounted for 95.2% of the Group's total consolidated revenue for the six months ended 30 June 2013, and 95.7%, 88.4% and 90.7% for the years ended 31 December 2012, 2011 and 2010, respectively. (in each case, reflecting the disposal of BG Bank in February 2011). Therefore, macroeconomic factors relating to Georgia, such as gross domestic product ("**GDP**"), inflation, interest rates and currency exchange rates, as well as unemployment, personal income and the financial condition of companies, have a material impact on loan losses, margins and customer demand for the Group's products and services, which materially affects the Group's business, financial condition and results of operations. Furthermore, unlike certain other issuers in Georgia, the Bank is not state-owned and BGH does not have one major shareholder. See "*Shareholders and Related Party Transactions—Shareholders*". Georgia's main economic activities include tourism, energy transit services, agriculture, mining, metals, machinery and chemicals. The global economic downturn and the 2008 Conflict led to a decline in public spending and Georgia experienced a 57.9% reduction in FDI in 2009, as compared to 2008. Due to the global economic crisis, real GDP in Georgia declined by 3.8% in 2009, compared with real GDP growth of 2.3% in 2008 (each according to Geostat), which led to a deterioration in the employment market in Georgia and, in turn, contributed to a decrease in loans and a slowdown in the rate of growth of deposits in the Georgian banking sector. In addition, the Georgian banking sector began to experience a shortage of liquidity in the second half of 2008, which continued into the first half of 2009, increasing competition for retail deposits.

The economic slowdown in Georgia reduced the growth rate of the Group's portfolio of retail and corporate loans. This in turn affected the Group's net fee and commission income (and, to a certain extent, the Group's net interest income, although net interest income was predominantly affected by a reduction in the size of the Group's securities portfolio in 2009). Moreover, financing costs increased due to both the limited availability of funding on the inter-bank market, mainly driven by credit risk aversion, and increasing interest rates on bank deposits resulting from increasing competition in the deposit market, which also had a negative impact on the net interest income earned by the Group. In addition, the quality of the Group's loan portfolio deteriorated as a result of the economic slowdown, which resulted in an increase in the Group's loans past due more than 90 days. "**NPLs**" (defined as loans past due more than 90 days and any additional losses estimated by the management) increased from GEL 100.3 million as of 31 December 2011 to GEL 126.0 million as of 31 December 2012 to GEL 131.8 million as of 30 June 2013. The Georgian economy showed signs of improvement in 2010 and 2011, with FDI increasing from US$814.5 million in 2010 to US$1,117.2 million in 2011 and real GDP increasing from 6.3% in 2010 to 7.2% in 2011, according to data published by Geostat. The Georgian economy continued to recover in 2012, recording estimated 6.1% real GDP growth during the year. According to Geostat and IMF, economic growth in Georgia was stronger in the first half of 2012, as compared to the second half, when the economic slowdown reflected lower corporate investment levels in both the pre and post domestic parliamentary election period. In 2012, FDI fell to an estimated US$911.6 million and the year-end annual inflation was negative 1.4%, mostly reflecting the high inflation in 2011 due to the food price increases and the economic slowdown in the second half of 2012 on the back of political uncertainty following the change of government as a result of the parliamentary elections. Due to the weakening economic activity and deflation, the NBG eased its monetary policy, cutting the refinancing rate from 6.75% in 2011 to 5.25% in 2012, while its foreign currency reserves continued to grow, reaching a record high level of US$2.9 billion in December 2012. Georgia's current account deficit for 2012 was an estimated GEL 1,853.7 million, or 11.7% of GDP. There can be no assurance that the Georgian economy will recover or that it will not experience a further deterioration.

Market turmoil and economic deterioration in Georgia could also have a material adverse effect on the liquidity, businesses or financial condition of the Group's borrowers, which could in turn, increase the Group's NPL ratios, impair its loans and other financial assets and result in decreased demand for the Group's products. In such an environment, consumer spending may decline and the value of assets used as collateral for the Group's secured loans, including real estate, could also decrease significantly, which could reduce recoveries on defaulting loans. Any of these conditions could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, the Georgian economy is highly dollarised. Prior to 2008, the dollarisation rate of the banking system (defined as foreign currency deposits as a share of total deposits across the sector) had declined with foreign currency deposits accounting for approximately 64.4% of all client deposits as of 1 January 2008. As a result of the combined effects of the 2008 Conflict and the global financial crisis, however, the dollarisation rate increased to 73.6% as of 1 January 2009, although it subsequently decreased to 68.8% as of 1 January 2010, 67.0% as of 1 January 2011 and 59.2% as of 1 January 2012, increased back to 63.8% as of 1 January 2013. As of 1 July 2013, the dollarisation rate had decreased to 61.5%, reflecting the de-dollarisation efforts by the NBG, in particular the reduction in refinancing rates in 2012 and 2013, which permitted commercial banks to borrow in Lari at lower interest rates, thereby encouraging more Lari-denominated transactions. Although the NBG has adopted measures to support the development of Georgia's domestic money markets, the dollarisation rate could adversely impact the effectiveness of the implementation of the NBG's monetary and exchange rate policies, which could negatively impact the purchasing power of the Lari, restrict future GDP growth in Georgia and depress Georgia's investment climate. Any of these effects could have a material adverse effect on the Georgian economy and, therefore, a material adverse effect on the Group's business, financial condition and results of operations.

Instability or a lack of growth in the domestic currency market may have an adverse effect on the development of Georgia's economy and, in turn, have an adverse effect on the Group

Although the Lari is a fully convertible currency, there is generally no market outside Georgia for the exchange of Lari. A market exists within Georgia for the conversion of Lari into other currencies, but it is limited in size. According to the NBG, in 2012, the total volume of trading turnover in the Lari-US dollar and Lari-Euro markets (excluding activities of the NBG) amounted to US$14.4 billion and €5.0 billion, respectively and according to the same source, in the first half of 2013 the total volume of trading turnover in the Lari-US dollar and Lari-Euro markets (excluding activities of the NBG) amounted to US$6.3 billion and €2.4 billion, respectively. According to the NBG, the NBG had US$3.0 billion in gross official reserves as of 30 June 2013. While the Government of Georgia has stated that these reserves will be sufficient to sustain the domestic currency market in the short term, a lack of growth of this currency market may hamper the development of Georgia's economy, which could have a material adverse effect on the businesses of the Group's corporate customers and, in turn, a material adverse effect on the Group's business, financial condition and results of operations.

In addition, a lack of stability in the currency market may adversely affect Georgia's economy. There was significant instability in the Lari to US dollar exchange rate following the Russian financial crisis of August 1998 and again following the 2008 Conflict. In November 2008, the NBG devalued the Lari by 16.1%, a measure aimed at alleviating the negative impact of the global financial crisis on the Georgian economy. While the Lari generally appreciated against the US dollar and other major international currencies from 2001 to 2008, the Lari then generally depreciated against the US dollar and other major international currencies until April 2011. Since then the exchange rate has remained relatively stable. The Lari/US dollar exchange rate was 1.7728 as of 31 December 2010, 1.6703 as of 31 December 2011, 1.6567 as of 31 December 2012, 1.6509 as of 30 June 2013 and 1.6678 as of 28 October 2013. The ability of the Government of Georgia and the NBG to limit any volatility of the Lari will depend on a number of political and economic factors, including the NBG's and the Government's ability to control inflation, the availability of foreign currency reserves and FDI and other currency inflows. Any failure to do so, or a major depreciation or further devaluation of the Lari, could adversely affect Georgia's economy. According to information provided by Geostat, annual inflation in Georgia, as measured by the end-of-period Consumer Price Index ("**CPI**"), was negative 1.4% in 2012, 2.0% in 2011 and 11.2% in 2010. Inflation rose in the first half of 2011, reaching 14.3% at 31 May 2011, but then decreased to 2.0% at 31 December 2011. The negative inflation in 2012 the high inflation in 2011 due to the food price increases and the economic slowdown in the second half of 2012 on the back of political uncertainty following the change of government as a result of the parliamentary elections. As of 30 June 2013, inflation was 0.2%. There is no guarantee that the country will not be further affected by domestic or global increases in food prices. High and sustained inflation could lead to market instability, a financial crisis, a reduction in consumer purchasing power and erosion of consumer confidence. On the other hand, deflation, whilst increasing the purchasing power of the Lari, could adversely affect foreign investment and the Group's profitability in its lending activities. Any of these events could lead to a deterioration in the performance of Georgia's economy and negatively affect the businesses of the Group's customers, which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

Political and governmental instability in Georgia could have a material adverse effect on the local economy and the Group

Since the restoration of its independence in 1991, Georgia has experienced an ongoing substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy.

In the most recent Georgian parliamentary elections (which were held on 1 October 2012), the Georgian Dream coalition won the election by a majority of seats. The Georgian Dream coalition is generally seen to be business and investor friendly, and to date has remained committed in principle to major economic and fiscal policies designed to liberalize the Georgian economy. The Georgian Dream coalition is currently led by Bidzina Ivanishvili, who was officially approved by the parliament of Georgia (the "**Parliament**") as the country's new Prime Minister on 25 October 2012. Although the Georgian Dream Coalition won the 2012 parliamentary elections and Bidzina Ivanishvili is the Prime Minister and head of government, the leader of the United National Movement Party, Mikheil Saakashvili, remains as President of Georgia and head of state and is expected to continue in office until the inauguration of the new President elected during the Presidential election held on 27 October 2013 (the "**2013 Presidential Election**"). In the 2013 Presidential Election, the Georgian Dream party's Presidential candidate Giorgi Margvelashvili was declared the winner, with approximately 62% of the vote, by the Georgian central election commission on 28 October 2013. Mikheil Saakashvili has conceded the defeat of the Presidential candidate of the United National Movement Party.

Throughout 2013, Mr. Ivanishvili has indicated his intention to step down from his position as Prime Minister shortly after the 2013 Presidential Election, and has also confirmed his intention to continue his activities in the non-governmental sector. Most recently he has confirmed that he will resign on, or shortly after, 17 November 2013, when the new President is inaugurated. Currently, the Georgian Dream coalition has not yet nominated a new Prime Minister candidate to succeed Mr. Ivanishvili, and the Group cannot predict whether Mr. Ivanishvili will in fact resign or, if he does, the impact of his resignation and replacement, if any.

Although the 2013 Presidential Election has been peaceful, if there are any subsequent protests or criticism arising in relation to the conduct or outcome of the 2013 Presidential Election, if Mr. Ivanishvili steps down as indicated or if any further elections are called, political instability or disruption within Georgia may result.

Georgia faces several challenges, one of which is the need to implement further economic and political reforms. There can be no assurance that the Georgian Dream coalition's business and investor friendly policies will continue or will not be reversed, or that such reforms and economic growth will not be hindered as a result of any changes affecting the continuity or stability of the Georgian Dream coalition government or as a result of a rejection of reform policies by the new President, the Parliament or others.

In 2010, the Parliament approved amendments to the Constitution that are intended to enhance the primary governing responsibility of the Parliament, increase the powers of the Prime Minister and reduce the powers of the Presidency. The majority of these amendments have not yet been implemented. The Georgian Dream coalition is also considering further amendments to the Constitution designed to decrease the threshold of votes necessary for further amendments to the Constitution. However, the proposed amendments have been contested and criticized by the United National Movement Party. Although in March 2013 the Parliament unanimously adopted certain amendments to the Constitution, thus limiting the powers of the President, there can be no assurance that changes to Georgian Parliamentary, Presidential or Prime Ministerial powers will not create political disruptions or instability, or otherwise negatively affect the political climate in Georgia.

The Georgian Dream coalition government has adopted amendments to the Labour Code, amending, among other things, the maximum working hours, the circumstances under which fixed term employment contracts are permitted, the grounds for terminating employment with cause and the amount of compensation payable for the termination of employment. As a result of such amendments to the Labour Code, the Group may be required to adjust its policies and procedures to comply with the amended requirements. See also "*−Additional Risks Arising Principally From the Group's Banking Activities−The Group's businesses are subject to substantial regulation and oversight and future changes in regulation, fiscal or other policies are unpredictable*" for a further discussion of other recent legislative changes.

Changes in Government's policy, including changes in the implementation or approach of previously announced government initiatives, could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may experience increases in its income taxes

The corporate income tax rate in Georgia is 15%. This tax rate is generally lower than the tax rate applicable to the Group's peer companies, particularly those operating in more developed Western countries. Furthermore, by virtue of the Economic Liberty Act passed by the Parliament in July 2011, which enters into force on 1 January 2014, subject to certain exceptions, referenda are required to be held before raising taxes and tax rates. However, no assurance can be given that there will not be a future increase in corporate income tax in Georgia. Any significant increase in the rate of corporate income tax in Georgia or other changes in taxation policy could have a material adverse effect on the Group's business, financial condition and results of operations.

Risks Relating to the Group's Lending Activities

The Group may not be able to maintain the quality of its loan portfolio

The quality of the Group's loan portfolio is affected by changes in the creditworthiness of its customers, the ability of customers to repay their loans on time, the statutory priority of claims against customers and the Group's ability to enforce its security interests on customers' collateral should such customers fail to repay their loans and whether the value of such collateral is sufficient to cover the full amounts of those loans. In addition, the quality of the Group's loan portfolio may deteriorate for various other reasons, including factors beyond the Group's control such as any negative developments in Georgia's economy resulting in the financial distress or bankruptcy of the Group's customers or the unavailability or limited availability of credit information concerning certain customers, and other factors, such as a failure of the Group's risk management procedures or a rapid expansion of the Group's loan portfolio. For example, during 2008 and 2009, the Group's loan book quality was negatively affected by the economic slowdown in Georgia, Ukraine and Belarus, as well as by the 2008 Conflict. The Group's cost of credit risk amounted to GEL 36.3 million in the first half of 2013, as compared to GEL 13.9 million in the first half of 2012, GEL 44.7 million in 2012, GEL 22.2 million in 2011 and GEL 47.7 million in 2010. The Group's impairment charges and, in turn, its cost of credit risk, could increase if a single large borrower defaults or a material concentration of smaller borrowers default. Also, as of 30 June 2013 and 2012, and 31 December 2012, 2011 and 2010, loans past-due more than 90 days accounted for 3.9%, 3.0%, 2.6%, 3.3% and 4.7% of total gross loans, respectively. NPLs accounted for 4.1% and 3.4% of gross loans as of 30 June 2013 and 2012, respectively. Loans that would otherwise be overdue or impaired, but whose terms (including as to principal and interest payment) have been renegotiated due to the borrower's existing or possible inability to pay ("**Renegotiated Loans**"), accounted for 2.4% of total gross loans as of 30 June 2013 and 3.1%, 4.5% and 10.9% as of 31 December 2012, 2011 and 2010, respectively. For more information regarding the credit quality of Renegotiated Loans, see "*Risk Management—Credit Risk*". Although the Bank Management Board does not believe that there is a material risk that the Group's loan portfolio quality will deteriorate in the next six months, there can be no assurance that in the longer term the Group's loan portfolio quality will not deteriorate and that the Group's loan impairment charges will not increase, which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's loan portfolio for its Corporate Banking segment is somewhat concentrated, with the Group's top ten corporate borrowers accounting for 16.1% of the Group's total loan portfolio as of 30 June 2013 (gross of allowance for impairment). See "*Selected Statistical and Other Information*". To the extent that the Group grows its loan portfolio by entering into additional arrangements with existing counterparties, it will increase its credit and general counterparty risk with respect to those counterparties.

Collateral values may decline

As of 30 June 2013, the Group held collateral against gross loans amounting to GEL 2,732.2 million, corresponding to 84.7% of the Group's total gross loans. The main forms of collateral taken by the Group in its corporate lending are charges over real estate, equipment, inventory and trade receivables. The main form of collateral taken by the Group in its retail lending is a mortgage over residential property. With respect to mortgage loans secured by real estate, the Group imposes a loan-to-value (based on a market value of the real estate used as collateral) ratio of between 60% and 90% at the time the loan is advanced, depending on the value of the real estate used as collateral. In general, the Bank requires a lower loan-to-value ratio the greater the value of the real estate. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions in the industries in which the Group's customers operate, such as that which occurred during 2008 and 2009, may result in illiquidity and a decline in the value of the collateral securing the Group's loans, including a decline to levels below the outstanding principal balance of those loans.

In addition, declining or unstable prices of collateral in Georgia may make it difficult for the Group to accurately value collateral held by it. If the fair value of the collateral held by the Group declines significantly in the future, the Group could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans past due more than 90 days. Further, changes to laws or regulations may impair the value of such collateral. See "−*Additional Risks Arising Principally From the Group's Banking Activities−The Group's businesses are subject to substantial regulation and oversight and future changes in regulation, fiscal or other policies are unpredictable*". If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

Significant changes or volatility in the Group's net interest margin could have an adverse effect on the Group

The Group derives the majority of its total net income from net interest income. As a result, the Group's operations are affected by fluctuations in its net interest margin ("**NIM**"). In particular, the Group's banking operations depend on the management of key factors that affect the Group's NIM, such as interest rates, competition for loans and deposits, customer demand and costs of funding. These key factors are influenced by factors beyond the Group's control, such as global and local economic conditions, the resources of the Group's competitors and consumer confidence. Interest rates are highly sensitive to many factors beyond the Group's control, including monetary policies and domestic and international economic and political conditions and the reserve policies of the NBG.

A mismatch of interest-earning assets and interest-bearing liabilities in any given period resulting from changes in any of the key factors outlined above, or otherwise, could reduce the Group's NIM. The Group's NIM was 7.3% and 7.7% in the six months ended 30 June 2013 and 2012, respectively and was 7.6%, 7.5% and 8.1% in the years ended 31 December 2012, 2011 and 2010, respectively. The decrease in the Group's NIM in the first half of 2013, as compared to the first half of 2012, was primarily due to excess liquidity as a result of the slowdown in loan demand in the fourth quarter of 2012 and the first half of 2013, as well as the decline in loan yield from 17.5% in the first half of 2012 to 16.5% in the first half of 2013. The Group’s NIM in 2012 stayed largely flat at 7.6% compared to 7.5% in 2011, having decreased from a NIM of 8.1% in 2010. The decrease between 2010 and 2011 was due to an increase in liquid assets, an increase in the proportion of Lari-denominated customer deposits in total customer deposits and a decline in loan yields. Any reduction in the Group's NIM caused by changes in the key factors outlined above, or otherwise, could have a material adverse effect on the Group's net interest income, which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, any increase in interest rates may result in an increase in the periodic instalment amounts paid by the Group's customers. Such an increase may result in difficulties related to the repayment of the assumed loans, which, in turn, may lead to a decrease in the quality of the Group's loan portfolio and an increase in impairment provisions for loans extended to the Group's customers, which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

Currency fluctuations have affected, and may continue to affect, the Group

A substantial portion of the total assets of the Group, especially its loan portfolio (66.9% of its gross loans to customers as of 30 June 2013), is denominated in foreign currencies, primarily US dollars, while the majority of customers who have their loans denominated in foreign currencies earn their income in Lari. Those customers are usually not protected against the fluctuations of the exchange rates of the Lari against the currency of the loan. Consequently, any depreciation of the Lari against the currency of the loan may result in difficulties in repayment of the loans, which, in turn, may lead to a decrease in the quality of the Group's loan portfolio and an increase in impairment provisions for loans extended to the Group's customers, which may have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, the Group's operations are affected by the Lari to Belarusian Rouble exchange rates as these affect the value of the Group's equity interests in Joint Stock Company Belarusky Narodny Bank ("**BNB**"), its Belarusian subsidiary, on a consolidated basis and affect its ability to comply with contractual covenants based on the Basel I Total Capital Adequacy Ratio, calculated on a consolidated basis. For further, see "*Additional Risks Arising Principally From the Group's Banking Activities—The Group is subject to certain regulatory ratios*".

Depreciation of the Belarusian Rouble against the Lari has the effect of reducing BNB's contribution to the Group's consolidated capital. As a result of the Belarusian Rouble devaluation in 2011 (178.3% against the US dollar), the regulatory capital of BNB decreased, which was below the minimum regulatory capital required to accept retail deposits (being €25 million, as required by the National Bank of Republic of Belarus (the "**NBRB**")). As of 31 December 2011, as a result of the devaluation of the Belarusian Rouble, the Group recognized a write down of GEL 23.4 million, representing the full amount of BNB's goodwill. Accordingly, the regulatory capital of BNB decreased to €15.9 million (GEL 34.3 million) as of 31 December 2011. In 2012, the Belarusian Rouble was further devalued (2.6% against the US dollar), although it has remained stable in the first half of 2013. As of 1 January 2013, the regulatory capital of BNB was €17.3 million (GEL 37.8 million). The NBRB has granted a temporary waiver of the minimum regulatory capital requirement until 1 January 2014, after which, if not extended, the license to hold individual deposits may either be suspended or terminated. See "*−Additional Risks Arising Principally From the Group's Banking Activities−The Group is subject to certain regulatory ratios*". The NBRB has also set a limit on the aggregate amount of deposits from individuals at GEL 49.5 million (€19.8 million) (which is the value of BNB's deposits from individuals as of 1 February 2013) until BNB's regulatory capital reaches the minimum required level of €25 million. The Bank may provide subordinated debt to BNB to assist BNB in maintaining its minimum required levels.

Any subsequent devaluation of the Belarusian Rouble could result in further declines in BNB's regulatory capital. Although the Group seeks to minimise its open foreign currency positions through limits on the Group's foreign currency positions in accordance with NBG regulations and through swap agreements, there can be no assurance that these measures will protect against foreign exchange risks since any additional depreciation of the Belarusian Rouble may lead to further erosion of the Group's equity and pressure on its capital adequacy ratios. In addition, the Group is subject to counterparty risk in respect of its swap agreements (including its currency swap agreement with the NBRB), as the Group's counterparties may not honour their obligations under the relevant swap agreement.

If the Lari exchange rate against the US dollar or the Belarusian Rouble exchange rate against the Euro fluctuates, or any of the Group's counterparties default on their obligations, this could lead to the Group suffering losses, which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's risk management methods may prove ineffective at mitigating credit risk

Losses relating to credit risk may arise if the risk management policies, procedures and assessment methods implemented by the Group to mitigate credit risk and to protect against credit losses prove less effective than expected. The Group employs qualitative tools and metrics for managing risk that are based on observed historical market behaviour. These tools and metrics may fail to predict future risk exposures, especially in periods of increased volatility or falling valuations, or in periods in which there is a rapid expansion of the Group's loan portfolio. In addition, even though the Group requires regular financial disclosure by its corporate customers, customer financial statements may not always present a complete and accurate picture of each customer's financial condition. Furthermore, some of the Group's corporate customers may not have extensive or externally-verified credit histories, and their accounts may not be audited by a reputable external auditor. Therefore, notwithstanding the Group's credit risk evaluation procedures, the Group may be unable to evaluate effectively the current financial condition of each prospective corporate borrower and to evaluate effectively the ability of such corporate borrower to repay its loans when due. Similarly, the financial condition of some private individuals transacting business with the Group is difficult to assess and predict, as some retail borrowers have no or very limited credit history. Accordingly, the risk management systems employed by the Group may prove insufficient in measuring and managing risks and this may have a material adverse effect on the Group's business, financial condition and results of operations.

Additional Risks Arising Principally From the Group's Banking Activities

The Group faces liquidity risk

The Group becomes exposed to liquidity risk when the maturities of its assets and liabilities do not coincide. Liquidity risk is inherent in banking operations and can be heightened by a number of factors, including an overreliance on, or an inability to access, a particular source of funding, changes in credit ratings or market-wide phenomena such as financial market instability and natural disasters. The Group seeks to manage its liquidity risk by, among other things, maintaining a diverse funding base comprising short-term sources of funding (including retail and corporate customer deposits, inter-bank borrowing and borrowing from the NBG) and longer-term sources of funding (including borrowing from international credit institutions, sales and purchases of securities and long-term debt securities). The Group's current liquidity may be affected by unfavourable financial market conditions. If assets held by the Group in order to provide liquidity become illiquid or their value drops substantially, which the Bank Management Board currently believes is unlikely, the Group may therefore be required, or may choose to rely on other sources of funding to finance its operations and expected future growth. However, there is only a limited amount of funding available on the Georgian inter-bank market and the Group's recourse to other funding sources may pose additional risks, including the possibility that other funding sources may be more expensive and less flexible. In addition, the Group's ability to access such external funding sources is directly connected with the level of credit lines available to the Group, and this, in turn, is dependent on the Group's financial and credit condition, as well as general market liquidity.

As of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, 91.1%, 87.7%, 92.7% and 92.8%, respectively, of the Group's amounts due to customers had maturities of one year or less, while 13.2%, 13.2%, 23.5% and 13.3%, respectively, were payable on demand. As of the same dates, the Group's ratio of net loans to amounts due to customers was 108.9%, 112.6%, 93.4% and 116.1%, respectively. In terms of current and short-term liquidity, the Group is exposed to the risk of unexpected, rapid withdrawal of deposits by its customers in large volumes. Circumstances in which customers are more likely to rapidly withdraw deposits in large volumes include, among others, a severe economic downturn, a loss in consumer confidence, an erosion of trust in financial institutions or a period of social, economic or political instability. By way of example, the Group experienced a higher than usual volume of customer withdrawals in the period following the 2008 Conflict. See "*—Macroeconomic Risks and Political Risks Related to Georgia—Political and governmental instability in Georgia could have an adverse effect on the local economy and the Group*." If a substantial portion of the Group's customers rapidly or unexpectedly withdraw their demand or term deposits or do not roll over their term deposits upon maturity, this could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is subject to certain regulatory ratios

The Bank, like all regulated financial institutions in Georgia, is required to comply with certain capital adequacy and regulatory ratios set by the NBG (for further information, see "*Regulation of the Georgian Banking Sector—Mandatory Financial Ratios*"). Although in the past the Bank's "investments to equity" and "investment plus fixed assets to equity financial ratios" have been below the level set by the NBG, the NBG confirmed on 31 December 2009 that it would not impose any sanctions on the Bank as a result, and the Bank has been in compliance with both of these financial ratios since February 2011. Further, on 31 October 2012, the Bank obtained a waiver from the NBG with respect to the proposed increase of the limit of aggregate lending to certain borrowers which were treated by the NBG as a single borrower up to 21% of the Bank's regulatory capital, subject to a maximum of US$110 million. Even though the Bank's exposure to certain borrowers has decreased and it complies with the mandatory financial ratios without needing to rely on the waiver, there is no assurance the Bank will continue to be able to do so.

In December 2010, the Basel Committee on Banking Supervision published the Basel III rules setting out certain changes to capital requirements applicable to banks. Implementation of the new combined regulation based on Basel II and Basel III will occur at a national level in 2014. The NBG is currently in the process of implementing Basel II and Basel III in Georgia. On 18 October 2013, the NBG published a draft regulation for capital adequacy based on Basel II and Basel III, which makes adjustments to certain Basel II and Basel III rules, including those relating to foreign currency additional risk weights, specific measurements and risk estimates. As notified by the NBG, the Group expects the implementation of Basel II and Basel III on 30 June 2014 for Pillar I and 30 September 2014 for Pillar II. As the implementation of Basel II and Basel III will be subject to the rules that have yet to be adopted in Georgia, the Group cannot predict the impact such rules will have on the Group's overall capital requirements.

In addition, BNB is licensed by the NBRB and is required to comply with certain capital adequacy ratios and minimum share capital requirements set by the NBRB. Although BNB has the minimum level of regulatory capital required by NBRB to conduct banking operations in Belarus (the minimum level for these purposes is set at the equivalent of €5 million and, as of 30 June 2013, the regulatory capital of BNB was €19.8 million (GEL 42.8 million)), BNB has not had the minimum level of regulatory capital required by NBRB in order to hold deposits from individuals (set at the equivalent of €25 million for this purpose) since May 2011. Although BNB has received a temporary waiver effective until 1 January 2014 in respect of this breach, there is no assurance that BNB will be able to comply with the minimum level of regulatory capital required by NBRB by 1 January 2014, or that it will be able to obtain a further waiver from the NBRB thereafter. For further information see "*Risks Relating to the Group's Lending Activities—Currency fluctuations have affected, and may continue to affect, the Group*". If BNB's level of regulatory capital remains below the minimum level required by the NBRB after the temporary waiver expires and no new waiver is obtained, the NBRB may revoke BNB's licence to accept deposits from individuals. As of 30 June 2013, BNB had GEL 47.7 million in deposits from individuals, representing 1.7% of the Group's total customer deposits and 1.0% of total liabilities.

Save for BNB not having the minimum level of regulatory capital required by the NBRB in order to hold retail deposits, the Group is not in breach of any applicable capital adequacy or regulatory ratios and the

Bank Management Board believes that overall the Group has adequate capital for at least the next 12 to 18 months. However, the Group's ability to comply with applicable capital adequacy and regulatory ratios could be affected by a number of factors, some of which are beyond the Group's control, including:

- an increase of the Bank's risk-weighted assets;
- the Group's ability to raise capital;
- losses resulting from a deterioration in the Group's asset quality, a reduction in income levels, an increase in expenses or a combination of some or all of these factors;
- a decline in the values of the Group's securities portfolio;
- changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios; and
- increases in minimum capital adequacy ratios imposed by the NBG.

Failure to maintain the minimum capital adequacy and other regulatory ratios may have a material adverse effect on the Group. Moreover, a breach of regulatory requirements relating to the minimum capital adequacy and other regulatory ratios may result in entities in the Group being subject to regulatory or administrative sanctions, which could impact the Group's ability to conduct its business, and result in an increase in the operating costs of the Group and loss of reputation, all of which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations. See "—*The Group's businesses are subject to substantial regulation and oversight and future changes in regulation, fiscal or other policies are unpredictable*".

The Group's businesses are subject to substantial regulation and oversight and future changes in regulation, fiscal or other policies are unpredictable

Currently, the Bank is required to comply with Georgian banking regulations. In addition to mandatory capital adequacy ratios, the NBG is authorised to set lending limits and other economic ratios in Georgia, with which the Bank is required to comply. Under Georgian banking regulations, the Bank is required to, among other things, comply with minimum reserve requirements and mandatory financial ratios and file periodic reports. In addition to its banking operations, the Group also provides other regulated financial services and offers financing products, including brokerage and pension fund operations, insurance and healthcare products through its insurance and healthcare subsidiary and services such as asset management, that are subject to governmental supervision. In addition, if regulations change or if the Group acquires or expands its businesses, the Group may become subject to additional rules and regulations at a national, international or supranational level, which may impact the Group's operations. Additionally, the business, financial condition and results of operations of the Group's activities in Belarus are affected by legal regulations, instructions and recommendations, including those issued by the NBRB and the NBG, including those which seek to implement Basel III into national law. See "−*The Group is subject to certain regulatory ratios*."

In July 2013, the Parliament considered the enactment of a law, which, among other things, sought to establish a moratorium on enforcement measures over residential properties owned by individuals that are secured as collateral in financing transactions. The Government of Georgia, as well as the business sector, criticized and opposed this initiative. After significant negotiation, the Parliament has postponed further consideration of the law. Many members of the Parliament, as well as the Government, have indicated that, if the law is adopted, it would not restrict enforcement actions with respect to residential properties pledged as collateral in favour of commercial banks and microfinance organisations. However, there is no assurance that, if the law is adopted, it will not so affect these enforcement actions, or that the Parliament will not, in the future, enact laws or regulations, which may restrict the ability of the Group to enforce security granted by its customers or otherwise impair the value of such collateral.

Recently, certain controversial amendments have been initiated in the Parliament which amend foreclosure mechanisms and impose moratoriums on foreclosures. According to the legislative amendments, enforcement of foreclosures and eviction of borrowers who have defaulted on mortgage loans should be suspended until 1 February 2014. Although to date these amendments have not been passed into law, and the Government and members of Parliament have indicated that, if any law is adopted, it should not restrict enforcement actions with respect to collateral pledged in favour of commercial banks and microfinance organisations, there is no assurance that if such laws are adopted, they would not affect enforcement actions by banks and microfinance organisations, or that the Parliament would not, in the future, enact laws or regulations that may restrict the ability of the Group to enforce security granted by its customers, or otherwise impair the value of such collateral. If such laws are adopted, they may result in illiquidity of the collateral, increase of credit risk and emergence of the bad loans, and may have negative effects on the economy and the Georgian banking sector, including the Bank. If any of these risks materialise, they could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, on 28 June 2013, legislative amendments were adopted to impose a moratorium on foreign ownership of agricultural land (including ownership by foreign nationals, foreign entities and local entities with foreign ownership) until 31 December 2014. Although the moratorium does not apply to agricultural land owned by foreign nationals, foreign entities and Georgian companies with foreign ownership immediately prior to the legislative amendments, the law suggests that future disposals of such properties by their current owners to foreign nationals or foreign entities and Georgian companies with foreign ownership would not be permitted. In addition, the National Agency of Public Registry may refuse to register any sale of shares in Georgian companies owning agricultural land if the prospective purchaser of such shares is a foreign national. The legislative amendments have been criticized by the business sector, as well as by certain Government officials, including the Prime Minister, and the moratorium may be lifted. However, there is no assurance that the moratorium will be cancelled prior to 31 December 2014 or that the deadline will not be extended. The legislative amendments may result in the inability of the Bank to foreclose on collateral where agricultural land or shares of a company owning agricultural land are used as security for a loan with the Bank. Furthermore, such legislative changes may decrease the inflow of foreign investments in Georgia, which could have a negative effect on the economy, which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations. See "*−Macroeconomic Risks and Political Risks Related to Georgia−As most of the Group's businesses operate only within Georgia, the Group's success is dependent on a number of economic, political and other factors affecting Georgia that are beyond its control*".

In addition, the Georgian Dream coalition government is in the process of preparing and finalizing a range of new initiatives, including anti-monopoly regulations and changes to the regulation of the healthcare sector. Certain of the Government's proposals, including the proposal to establish a state insurance company to provide a basic insurance package for every Georgian citizen, could have a material impact on the business, financial condition and results of operations of the Group in general, and on the Group's insurance subsidiary Aldagi in particular. For further details, see "*—Risks Affecting the Group's Non-banking Activities—The Group's insurance subsidiary, Aldagi, is subject to the risks inherent in the insurance industry*" below.

Future changes in regulation, fiscal or other policies are unpredictable and there is often a delay between the announcement of a change and the publication of detailed rules relating to such change. For example, the NBG has indicated that it is considering introducing a new liquidity framework in Georgia but has yet to confirm the details or timing for the implementation of such liquidity framework. There can be no assurance that the current regulatory environment in which the Group operates will not be subject to significant change in the future, including as a result of a change in government in Georgia or Belarus, or that the Group will be able to comply with any or all resulting regulations. See "*—Macroeconomic Risks and Political Risks Related to Georgia—Political and governmental instability in Georgia could have an adverse effect on the local economy and the Group.*"

The Group is subject to operational risk inherent in its business activities

The Group is subject to the risk of incurring losses or undue costs due to the inadequacies or failure of internal processes or systems or human error, or from errors made during the execution or performance of operations, clerical or record-keeping errors, business disruptions (caused by various factors such as software or hardware failures and communication breakdowns), failure to execute outsourced activities, criminal activities (including credit fraud and electronic crimes), unauthorised transactions, robbery and damage to assets.

Although the Bank Management Board believes that the Group's risk management policies and procedures (which are designed to identify and analyse relevant risks to the Group's business, prescribe appropriate limits to various risk areas and monitor the level and incidence of such risks on an on-going basis) are adequate and that the Group is currently in compliance in all material respects with all laws, standards and recommendations applicable to the Group, any failure of the Group's risk management system to detect unidentified or unanticipated risks, or to correct operational risks, or any failure of third parties adequately to perform outsourced activities could have a material adverse effect on the Group's business, financial condition and results of operations. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Bank or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Risks Affecting the Group's Non-Banking Activities

The Group's insurance subsidiary, Aldagi, is subject to the risks inherent in the insurance industry

Aldagi operates in the property and casualty ("**P&C**"), life and health insurance industry. In the ordinary course of business, Aldagi seeks to reduce losses that may arise from catastrophes or other events through reinsurance. Under such reinsurance arrangements, reinsurers assume a portion of the losses and related expenses, however, Aldagi remains liable as the direct insurer on all risks reinsured. Consequently, ceded reinsurance arrangements do not eliminate Aldagi's obligation to pay under its insurance policy for losses insured, which could cause a material increase in Aldagi's liabilities and a reduction in its profitability. Moreover, Aldagi is subject to its reinsurers' credit risk and solvency and their willingness to make payments under the terms of reinsurance arrangements with respect to its ability to recover amounts due from them.

Although Aldagi adheres to strict reinsurance policies and periodically evaluates the financial condition of its reinsurers to minimise its exposure to significant losses from reinsurer insolvencies, reinsurers may become financially unsound by the time their financial obligations become due. The inability of any reinsurer to meet its financial obligations to Aldagi could negatively impact Aldagi's financial condition and results of operations. In addition, the availability, amount and cost of reinsurance depend on general market conditions which may fluctuate. Reinsurance may not be available to Aldagi at commercially reasonable rates, or at all, and any decrease in the amount of Aldagi's reinsurance will increase its risk of loss.

In accordance with industry practices and accounting regulatory requirements, Aldagi establishes reserves for reported claims ("**RBNS**"), incurred but not reported claims ("**IBNR**") and unearned premiums. Reserves do not represent an exact calculation of liability, but instead represent estimates of what the ultimate settlement and administration of claims will cost based on an assessment of facts and circumstances then known, review of historical settlement patterns, estimates of trends in claims severity, frequency of claims, legal theories of liability and other factors. There can be no assurance that actual claims will not materially exceed its claims reserves and have a material adverse effect on the Group's business, financial condition and results of operations.

The Government of Georgia undertook a range of new initiatives relating to the regulation of healthcare in Georgia. In 2013, under the state-funded Universal Health Care Programme (the "**Healthcare Programme**"), the Government has begun to provide a basic insurance package for every Georgian citizen not already covered by any insurance, including certain vulnerable groups such as pensioners, students and children already covered by the Healthcare Programme in place since 2007. The coverage of the groups described above under the Healthcare Programme is currently provided through private insurance companies. The Government may establish a state insurance company to provide basic universal healthcare coverage for Georgian citizens (rather than through private insurance companies), under the Healthcare Programme although there is no indication when this would occur, if at all. The Group's insurance subsidiary, Aldagi, currently provides Government-funded insurance coverage to certain groups, such as the socially vulnerable, pensioners, students and children that fall under the Healthcare Programme. The establishment of a state insurance company to provide basic insurance coverage for all citizens of Georgia could lead to a reduction or the elimination in the Government-funded insurance policies that Aldagi provides thereby reducing Aldagi's revenues.

The Group's real estate subsidiary, m2 Real Estate, is subject to the risks of developing and selling real estate

The Group's real estate subsidiary m2 Real Estate, is primarily engaged in developing affordable residential properties for sale and rent. Real estate property investments are subject to varying degrees of risk, which affect the level of income from the value of, properties including:

- changes in the Georgian economic climate;
- local conditions such as a surplus of similar properties or a reduction in demand for the property;
- the attractiveness of the property to tenants and purchasers;
- occupancy rates and the ability to collect rent from tenants;
- laws and governmental regulations, including environmental regulation, tax laws and insurance regulations; and
- acts of nature, such as earthquakes, floods and other extreme weather events that may damage property;

In addition, m2 Real Estate's projects are subject to the general risks associated with construction and development, including:

- cost overruns due to increased material, labour or other costs, which could make completion of the project unprofitable;
- the inability to obtain, or delays in obtaining, required zoning, land-use, building, occupancy, and other governmental permits and authorisations, which could result in increased costs and delays in completion or could require m2 Real Estate to abandon a project entirely; and
- m2 Real Estate may be unable to complete construction and leasing of a property on schedule.

Any of these factors could have a material adverse effect on the financial condition and operating results of m2 Real Estate, which may have a material adverse effect on the Group's business, financial condition and results of operations.

Other Risks Affecting the Group

The Group may not successfully implement its strategy

The Group aims to achieve long-term sustainable growth and profitability through a secure, modern and universal banking model, as well as to maintain and enhance its leading market position in Georgia. In addition, the Group's strategy is to diversify its business through the addition of businesses and services that have strong synergies with its banking operations. In addition, from time to time, the Group may seek to pursue selective acquisitions in Georgia. Furthermore, the Bank is concentrating on the Georgian market and the Bank's subsidiary. Joint Stock Company BG Capital ("**BG Capital**"), has exited from its brokerage operations in Ukraine and Belarus. In addition, the Group intends to exit from its other non-core operations, including through the sale of Joint Stock Company Liberty Consumer ("**Liberty Consumer**"), its remaining equity interest in BG Bank and its interest in BNB. In addition, from time to time, the Group may seek to pursue selective acquisitions in Georgia.

There can be no assurance that the Group will be able to achieve its major strategic objectives, including in respect of its synergistic businesses, such as insurance and healthcare, which may be affected by market conditions, potential legal and regulatory impediments and other factors, or that it will be able to exit from its non-core operations at a satisfactory price, or at all. See "*Description of Business—Synergistic Businesses—Insurance and Healthcare*". Any failure by the Group to achieve its strategic objectives could have a material adverse impact on the Group's reputation, which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

The Group faces competition

In recent years the Georgian banking sector has become increasingly competitive. According to the NBG, as of 31 August 2013 there were 21 commercial banks operating in Georgia, 19 of which are foreign controlled. The Group competes with a number of these banks, including TBC Bank, ProCredit Bank, Bank Republic and VTB Georgia In particular, because ProCredit Bank has a large market share in respect of small and medium enterprise ("**SME**") and micro finance loans, the Group faces competition from ProCredit Bank in relation to SME and micro financing in Georgia. TBC Bank and Bank Republic are the Bank's principal competitors in the corporate sector. In addition, both the mortgage market and the market for the provision of financial services to high net worth individuals are highly competitive in Georgia, with some competitors in the mortgage market implementing aggressive pricing policies in order to retain or build their market share. Additionally, in Belarus, the Group competes with a wide range of local (including state-owned) and international banks.

Increased competition may have a negative impact on the Group's ability to sustain its margin and fee levels, particularly if the Group's competitors possess greater financial resources (especially in the case of banks with foreign capital investment or banks which are branches or subsidiaries of non-resident foreign banks, by way of access to funding from foreign capital or their parent entity), access to lower-cost funding and a broader offering of products than the Group, or if the Group's competitors merged to significantly enhance their financial resources, access to funding and product offerings. Unlike most of its competitors, the Group has a relatively wide shareholder base and does not have an international development financial institution as a majority shareholder. In addition, increasing competition could lead to significant pressure on the Group's market share. Increasing competition in the banking industry has already led to and may, in the future, continue to lead to increased pricing pressures on the Group's products and services, which could have a material adverse effect on the Group's business, financial condition and results of operations.

There can be no assurance that the current regulatory environment in which the Group operates with respect to competition and anti-monopoly matters will not be subject to significant change in the future. Anti-monopoly matters with respect to the banking services sector are currently handled by the NBG. However, the

Georgian Government may, in the future, seek to legislate or regulate competition and antimonopoly matters in the Georgian banking industry through a governmental agency other than the NBG.

In addition, although there are currently no anti-monopoly regulations in Georgia that establish market share limits, there can be no assurance that such anti-monopoly limitations will not be introduced in Georgia in the future. The Group cannot predict whether the Parliament will seek to do this or, if it did, whether such laws or regulations would extend to commercial banks. In addition, the Group cannot predict whether it would be able to comply with any or all such laws or regulations. Given the current high market share maintained by the Group, the introduction of any anti-monopoly restrictions may have an effect on the growth rates of the Group, restrict the Group's ability to make future acquisitions or lead to the Group being compulsorily required to sell some of its assets or exit or reduce business areas.

The Group depends on its key management and qualified personnel

The Group's current senior management team includes a number of persons that the Bank Management Board believes contribute significant experience and expertise in the banking and other industries in which the Group operates. The Group's ability to continue to retain, motivate and attract qualified and experienced banking and management personnel is vital to the Group's business. There can be no assurance that the Group will be able to successfully recruit and retain the necessary qualified personnel. The loss or diminution in the services of members of the Group's senior management team or an inability to recruit, train or retain necessary personnel could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's insurance policies may not cover, or fully cover, certain types of losses

The Group generally maintains insurance policies covering its assets, operations and certain employees in line with general business practices in Georgia. The Group seeks to insure against a range of risks, including fire, lightning, flooding, theft, vandalism and third-party liability, The Group also maintains Bankers' Blanket Bond and directors' and officers' liability insurance. However, there can be no assurance that all types of potential losses are insured or that policy limits would be adequate to cover them. Any uninsured loss or a loss in excess of insured limits could adversely affect the Group's existing operations and could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

The Group faces certain risks associated with conducting international operations

The Group has historically made investments in Ukraine and Belarus. The Group's financial results in 2009 were adversely affected by a goodwill write-down in the amount of GEL 73.1 million, predominantly due to the write-off of the entire goodwill associated with Joint Stock Company BG Bank ("**BG Bank**"), as a result of a weak economic environment in Ukraine and high loan and finance lease receivables impairment charges in respect of BG Bank in 2008 and 2009. The Group's financial results in 2011 were adversely affected by a goodwill write down in the amount of GEL 23.4 million, due to the write off of the entire goodwill associated with BNB, as a result of a material devaluation of the Belarusian Rouble. For further information, see "*Risks Relating to the Group's Lending Activities—Currency fluctuations have affected, and may continue to affect, the Group*".

In February 2011, the Group disposed of its 80% interest in BG Bank. As part of its revised strategy to concentrate on the Georgian market the Group disposed of an 80% equity interest in BG Bank (in respect of which the remaining GEL 7.6 million (US$4.6 million)) instalment of the purchase price has been fully provisioned and written off as of 31 December 2012. The Group will continue to seek to exit from its international operations (including its remaining equity interest in BG Bank and, in due course, BNB) at an appropriate time. While it holds these assets, the Group will continue to be subject to risks relating to these operations, including certain political and economic risks, compliance risks and foreign currency exchange risks, as well as the risk of failure to market adequately to potential customers in other countries. See "*Other Risks Relating to Emerging Markets*" below. Any failure to manage such risks may cause the Group to incur increased liabilities, which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

If the Group fails to comply with any applicable regulations relating to, or the Group is associated with, money laundering or terrorist financing, this could have an adverse effect on the Group

The Group has implemented comprehensive anti-money laundering ("**AML**"), "know-your-customer" ("**KYC**"), "know your corresponding bank" and "know your employee" policies and is in the process of implementing such policies throughout its financial subsidiaries (including insurance and brokerage subsidiaries). Compliance with these policies is monitored by the Group's AML Compliance Department and the Group seeks to adhere to all requirements under applicable legislation in relation to money laundering.

However, there can be no assurance that these measures will be effective. If the Group fails to comply with timely reporting requirements or other AML regulations or is associated with money laundering or terrorist financing, this could have a material adverse effect on the Group's business, financial condition and results of operations. In addition, involvement in such activities may carry criminal or regulatory fines and sanctions.

Other Risks Relating to Emerging Markets

The uncertainties of the judicial system in Georgia, or any arbitrary or discriminatory state action taken in Georgia in the future, may have a material adverse effect on the local economy, which could and in turn, have an adverse effect on the Group

Georgia is still developing an adequate legal framework required for the proper functioning of a market economy. For example, in Georgia, several fundamental civil, criminal, tax, administrative and commercial laws have only recently become effective. The recent nature of much of Georgian legislation and the rapid evolution of the Georgian legal system place the quality and the enforceability of laws in doubt and result in ambiguities and inconsistencies in their application. In addition, the court system in Georgia is understaffed and has been undergoing significant reforms. Judges and courts in Georgia are generally less experienced in the area of business and corporate law than is the case in certain other countries, particularly in Europe and the United States. Most court decisions are not easily available to the general public, and enforcement of court judgments may, in practice, be difficult in Georgia. The uncertainties of the Georgian judicial system could have a negative effect on the Georgian economy, which could, in turn, have a material adverse effect on the Group's business, financial condition and operational results. In addition, to varying degrees, the same uncertainties of the judicial system in Georgia as discussed above apply to Belarus.

Uncertainties in the tax system in Georgia may result in the Group facing tax adjustments or fines in the future and there may be changes in current tax laws and policies.

In Georgia, tax laws have not been in force for significant periods of time compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, such tax laws are subject to frequent changes and amendments, which can result in unusual complexities for the Group and its business generally. A new Tax Code was adopted in Georgia on 17 September 2010 and came into effect on 1 January 2011. Differing opinions regarding the interpretation of various provisions exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties, inconsistencies and areas of conflict. While the Tax Code provides for the Georgian tax authorities to provide advance tax rulings on tax issues raised, thereby reducing the uncertainty regarding interpretation, and although the Bank Management Board believes that the Group is currently in compliance with the tax laws affecting its operations, it is possible that the relevant authorities could take differing positions with regard to interpretative issues, which may result in the Group facing tax adjustments or fines. In addition, there can be no assurance that the current tax laws or government tax policies will not be subject to change in the future, including any changes introduced as a result of a change of government. See "*Macroeconomic Risks and Political Risks Related to Georgia—Political and governmental instability in Georgia could have an adverse effect on the local economy and the Group*". Such changes could include the introduction of new taxes, an increase in the tax rates applicable to the Group or its customers or the introduction of a bank levy. Any such changes in the tax laws or governmental tax policies may have a material adverse effect on the Group. In addition, to varying degrees, the same uncertainties of the tax system in Georgia apply to Belarus.

There are additional risks associated with investing in emerging markets such as Georgia

Emerging markets may have higher volatility, limited liquidity and narrower export base and are subject to more frequent changes in the political, economic, social, legal and regulatory environment than more mature markets. Emerging economies are subject to rapid change and are particularly vulnerable to market conditions and economic downturns elsewhere in the world.

In addition, international investors' reactions to events occurring in one emerging market country or region sometimes appear to demonstrate a contagion effect, in which an entire region or class of investment is disfavoured by investors. If such a contagion effect occurs, Georgia could be adversely affected by negative economic or financial developments in other emerging market countries. Georgia has been adversely affected by contagion effects in the past, including following the 1998 Russian financial crisis and the more recent global financial crisis. No assurance can be given that it will not be affected by similar effects in the future.

Financial or political instability in emerging markets also tends to have a material adverse effect on the capital markets of emerging economies and the wider economy as investors generally move their money to more developed markets, which may be considered to be more stable. These risks may be compounded by incomplete, unreliable, unavailable or untimely economic and statistical data on Georgia, including elements of information provided in this Prospectus.

Risks Relating to the Notes

Noteholders may face difficulties enforcing judgments, including foreign judgments and arbitral awards, in respect of the Notes

On the basis of certain precedents established by foreign judiciaries, it may not be possible to effect service of process against the Bank in courts outside Georgia or in a jurisdiction to which the Bank has not explicitly submitted. Pursuant to Article 68.2 of the Law of Georgia on Private International Law, foreign court judgments against the Bank will not be recognised and enforceable in Georgia if:

(i) the matter is within the exclusive competence of Georgia;

(ii) there is a violation in the service of process or other procedures under the law of the country of the court which rendered the judgment;

(iii) a dispute involving the same subject matter between the same parties has already been decided by a Georgian court or by a foreign court, judgment of which has been recognised in Georgia;

(iv) the court of the foreign country rendering the judgment is not considered competent to adjudicate the dispute under Georgian legislation;

(v) the country whose court has rendered the judgment does not recognise the judgments of Georgian courts;

(vi) a dispute involving the same subject matter between the same parties is already being heard in a Georgian court; or

(vii) the judgment of the foreign court contradicts fundamental legal principles of Georgia.

No treaty exists between Georgia and most Western jurisdictions (including the United Kingdom) for the reciprocal enforcement of foreign court judgments.

The Supreme Court of Georgia will decide whether to recognise a foreign judgment. If recognition is denied by the Supreme Court of Georgia, the claimant may be required to bring new proceedings in Georgia in respect of the matter covered by a judgment already obtained in a foreign jurisdiction against the Bank. In addition, Georgian courts have relatively limited experience in the recognition and enforcement of foreign court judgments and, in general, mandatory enforcement procedures take a considerable amount of time. The limitations described above, including the general procedural grounds set out in Georgian legislation for the refusal to recognise and enforce foreign court judgments in Georgia, may significantly delay the enforcement of any such judgment or potentially deprive a claimant of effective legal recourse for claims.

The Terms and Conditions of the Notes provide that disputes arising from or in connection with the Notes may be settled by arbitration. Georgia is a party to the New York Convention. Therefore, an arbitration award obtained in a country which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Georgia, subject to the terms of the New York Convention and compliance with the Law of Georgia on Arbitration, the Georgian civil procedure regulations and other procedures and requirements established by Georgian legislation. It may be difficult, however, to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions, certain procedural ambiguities and Georgian courts' inability to enforce such orders, all of which could introduce delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia.

Furthermore, the choice of English law as the governing law of the Notes and the transaction documents may not be given effect, and the recognition or enforcement of foreign court judgments and arbitral awards may be limited, by application of the Georgian law principle requiring compliance with mandatory provisions of the law of the country most closely connected to the transaction, including mandatory provisions of Georgian law. The nature and scope of such mandatory provisions are subject to a considerable degree of discretionary authority by the court in which recognition or enforcement of the judgment or arbitral award is being sought.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Bank's operating results, actual or anticipated variations in the operating results of the Bank's competitors, adverse business developments, changes to the regulatory environment in which the Bank operates, changes in financial estimates by securities analysts and actual or expected sales of a large number of Notes, as well as any other factors affecting the Bank or the Group, including economic and market conditions in Georgia and Belarus and, to varying degrees, interest rates, currency exchange rates and inflation rates in other countries, such as the United States, the Member States of the EU and elsewhere. In addition, in recent years, the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Bank's business, financial condition and results of operations. There is not currently an active trading market for the Notes. If an active trading market for the Notes develops in the future there can be no assurance, that events in Georgia or elsewhere will not cause market volatility or that such volatility will not adversely affect the liquidity or the price of the Notes or that economic and market conditions will not have any other adverse effect. The Notes may trade at a discount to their offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, the financial condition of the Bank or other factors some of which may be beyond the control of the Bank.

The Notes constitute unsecured obligations of the Bank

The Bank's obligations under the Notes constitute unsecured obligations of the Bank. Accordingly, any claims against the Bank under the Notes are unsecured claims whose claims would be satisfied after any secured creditors. The ability of the Bank to pay such claims will depend upon, among other factors, its liquidity, overall financial strength and ability to generate asset flows.

Any change of law in England in the future may have a material adverse effect on the Notes

The Terms and Conditions of the Notes are based on the laws of England in effect as of the date of this Prospectus. There can be no assurance as to the impact of any possible judicial decision or change in law or administrative practice in England after the date of this Prospectus.

Any fluctuations in the credit ratings assigned to Georgia, the Bank or the Notes may cause trading in the Notes to be volatile and/or adversely affect the trading price of the Notes.

Several Georgian banks, including the Bank, have been rated by international rating agencies. The Bank, however, is the only commercial bank in Georgia to be rated by three international rating agencies. The Bank has ratings of "B1" and "Ba3" long-term and "Not-Prime" short-term foreign and local currency deposits, respectively, and a "D-" Financial Strength rating from Moody's. Moody's rating outlook for the Bank is stable. The Bank has ratings of "BB-" for foreign and local currency issuer default, "B" for short-term foreign and local currency deposits and support "4" from Fitch. Fitch's rating outlook for the Bank's issuer default ratings are stable. The Bank has ratings of "BB-" long-term and "B" short-term for counterparty credit from Standard & Poor's. Standard & Poor's rating outlook for the Bank is stable. The Notes have been rated "BB-" by Fitch, "Ba3" by Moody's and "BB-" by Standard & Poor's.

On 7 October 2010, Moody's assigned first time Ba3/Not-Prime foreign and local currency issuer ratings to Georgia with a stable outlook. On 22 November 2011, Standard & Poor's raised Georgia's long-term foreign and local currency ratings from "B+" to "BB-" and, on 15 December 2011, Fitch upgraded Georgia's sovereign long-term issuer default ratings from "B+" to "BB-".

As of the date of this Prospectus, each of Fitch, Moody's and Standard & Poor's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

The Bank cannot be certain that a credit rating will remain for any given period of time or that a credit rating will not be downgraded or withdrawn entirely by the relevant rating agency if, in its judgment, circumstances in the future so warrant. The Bank has no obligation to inform Noteholders of any such revision, downgrade or withdrawal. A suspension, downgrade or withdrawal at any time of the credit rating assigned to Georgia, the Bank or the Notes may cause trading in the Notes to be volatile or adversely affect the trading price of the Notes.

The credit ratings may not reflect the potential impact of the risks discussed above or of any other factors that may affect the value of the Notes. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of securities do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Bank could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

Investors whose financial activities are denominated in a currency or currency unit other than US dollars may receive less interest or principal than expected, or no interest or principal on the Notes, as a result of fluctuations in exchange rates or changes to exchange controls

The Bank will pay principal and interest on the Notes in US dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than US dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the US dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Bank's or the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the US dollar would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Governmental and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal on the Notes.

An investment in the Notes involves certain legal investment considerations

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Transfer of the Notes will be subject to certain restrictions

The Notes have not been and will not be registered under the US Securities Act or any US state securities laws. Prospective investors may not offer or sell the Notes, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and applicable state securities laws. Prospective investors should read the discussion under the heading "*Notice to Investors*" for further information about these transfer restrictions. It is their obligation to ensure that their offers and sales of the Notes within the United States and other countries comply with any applicable securities laws.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the US Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder ("**FATCA**"), generally require withholding of US tax at a rate of 30% on all or a portion of certain payments of principal and interest with respect to debt instruments which are treated as “foreign pass-thru payments” made on or after 1 January 2017 to an investor or any other non-US financial institution through which such payment is made if such investor or other non-US financial institution is not in compliance with FATCA. Under the current rules and guidance, the Issuer does not believe that any withholding under FATCA will apply to interest, principal or other amounts paid on or with respect to the Further Notes. However, any amendments or modifications to FATCA or future guidance could require the Issuer to withhold US tax on interest, principal or other amounts paid on or with respect to the Further Notes.

Investors in the Notes must rely on DTC, Euroclear and Clearstream, Luxembourg procedures

The Regulation S Notes will be represented on issue by a Regulation S Global Note that will be deposited with a nominee for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Regulation S Global Note, investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Regulation S Global Note. While the Notes are represented by the Regulation S Global Note, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Rule 144A Notes will be represented on issue by a Rule 144A Global Certificate that will be deposited with a nominee for DTC. Except in the circumstances described in the Rule 144A Global Certificate, investors will not be entitled to receive Notes in definitive form. DTC and its direct and indirect participants will maintain records of the beneficial interests in the Rule 144A Global Certificate. While the Notes are represented by the Rule 144A Global Certificate, investors will be able to trade their beneficial interests only through DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg.

While the Notes are represented by the Global Certificates, the Bank will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Certificate. Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

The Terms and Conditions of the Notes may be modified or waivers for breaches of the Terms and Conditions may be given in the future

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning the Bank's plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to the Bank's financial position, future operations, development, and business strategy, the performance or growth of the Bank's loan portfolio and the trends the Bank anticipates in the Georgian economy and in the industries and the political and legal environment in which it operates and other information that is not historical information. Forward-looking statements appear in various sections of this Prospectus, including, without limitation, under the headings "*Overview of the Group*," "*Risk Factors*," "*Description of Business*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Funding*" and "*Risk Management*".

Words such as "believe", "anticipate", "estimate", "target", "potential", "expect", "intend", "predict", "project", "could", "should", "may", "will", "plan", "aim", "seek" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "*Risk Factors*", as well as those included elsewhere in this Prospectus. Investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Accordingly, investors should not place undue reliance on forward-looking statements and, when looking at forward-looking statements, should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Bank operates. The forward-looking statements in this Prospectus speak only as of the date of this Prospectus. The Bank does not undertake any obligation to update or revise any of them (whether as a result of new information, future events or otherwise), other than as required by applicable laws, the Listing Rules or the Prospectus Rules of the UK Listing Authority. Bank of Georgia does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. These cautionary statements qualify all forward-looking statements attributable to the Bank or persons acting on the Bank's behalf and any projections made by third parties included in this Prospectus.

ENFORCEABILITY OF FOREIGN JUDGMENTS AND ARBITRAL AWARDS

The Bank is a joint stock company incorporated under the laws of Georgia. A substantial portion of assets of the Bank and most of the members of the Bank's Management Board ("**Management**") and its executive officers reside outside the United Kingdom and the United States. The Bank has appointed an agent for service of process in England; however, it may not be possible for investors to effect service of process within the United States or the United Kingdom on any members of its Management or its executive officers or enforce judgments against such persons or the Bank.

In addition, on the basis of certain precedents established by foreign judiciaries, it may not be possible to effect service of process against the Bank in courts outside Georgia or in a jurisdiction to which the Bank has not explicitly submitted. Pursuant to Article 68.2 of the *Law of Georgia on Private International Law*, foreign court judgments against the Bank will not be recognised and enforceable in Georgia if:

(i) the matter is within the exclusive competence of Georgia;

(ii) there is a violation in the service of process or other procedures under the law of the country of the court which rendered the judgment;

(iii) a dispute involving the same subject matter between the same parties has already been decided by a Georgian court or by a foreign court, judgment of which has been recognised in Georgia;

(iv) the court of the foreign country rendering the judgment is not considered competent to adjudicate the dispute under Georgian legislation;

(v) the country whose court has rendered the judgment does not recognise judgments of Georgian courts;

(vi) a dispute involving the same subject matter between the same parties is already being heard in a Georgian court; or

(vii) the judgment of the foreign court contradicts fundamental legal principles of Georgia.

No treaty exists between Georgia and many Western jurisdictions, including many EU jurisdictions, for the reciprocal enforcement of foreign court judgments.

The Terms and Conditions of the Notes provide that disputes arising from or in connection with the Notes may be settled by arbitration. Georgia is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**"). Therefore, an arbitration award obtained in a country, which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Georgia, subject to the terms of the New York Convention and compliance with Georgian civil procedure regulations, the Law of Georgia on Arbitration and other procedures and requirements established by Georgian legislation. It may be difficult, however, to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions, certain procedural ambiguities and Georgian courts' inability to enforce such orders. Each of these factors could introduce delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia. Pursuant to Article 45.1 of the *Law of Georgia on Arbitration*, arbitral awards against the Bank may not be recognised and enforceable in Georgia if:

(i) the party against whom the award is made proves before Georgian courts that:

  (a) a party to the arbitration agreement lacked legal capacity;

  (b) the arbitration agreement is void or set aside pursuant to the law specified by the parties in the arbitration agreement or, in the absence of such, based on the laws of the place where the award was made;

  (c) a party was not given proper notice of the appointment of an arbitrator or of the arbitration proceedings, or was not able to participate in the proceedings for other valid reasons;

(d) the award is issued on a dispute not falling within the terms of the arbitration agreement or deals with a matter beyond the scope of the arbitration agreement (in this case the award may be partially recognised);

(e) the composition of the arbitral tribunal or the procedure of the arbitration was not in accordance with the arbitration agreement, or, in the absence of such agreement, the arbitration was conducted in violation of the laws of the place of arbitration; or

(f) the arbitral award has not yet become binding or has been set aside or suspended by the courts of the state in which, or under the laws of which, the award was made; or

(ii) the court establishes that:

(a) under Georgian law, the subject matter of the dispute is not capable of settlement by arbitration; or

(b) the award is contrary to public policy.

Furthermore, the choice of English law as the governing law of the Notes and the transaction documents may not be given effect, and the recognition or enforcement of foreign court judgments and arbitral awards may be limited, by application of the Georgian law principle requiring compliance with mandatory provisions of the law of the country most closely connected to the transaction, including mandatory provisions of Georgian law. The nature and scope of such mandatory provisions are subject to a considerable degree of discretionary authority by the court in which recognition or enforcement of the judgment or arbitral award is being sought.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Financial Information

The audited consolidated financial statements of the Bank and its consolidated subsidiaries (the "**Group**") as of and for the years ended 31 December 2012 and 2011 (the "**Audited Financial Statements**") included in this Prospectus have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board (the "**IASB**"), including all International Accounting Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee of the IASB that are relevant to the Group's operations. The Audited Financial Statements were audited by the Group's independent auditors, Ernst & Young LLC ("**EY**"), in accordance with International Standards on Auditing ("**ISA**"). The Group's unaudited condensed consolidated financial statements as of and for the six months ended 30 June 2013 (the "**Interim Financial Statements**") included in this Prospectus have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("**IAS 34**") and have been reviewed by EY in accordance with International Standards on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Unless otherwise indicated, the financial information presented herein is extracted from the Annual Financial Statements and the Interim Financial Statements (collectively, the "**Financial Statements**").

Certain amounts that appear in this Prospectus have been subject to rounding adjustments.

Non-IFRS Measures

This Prospectus includes certain measures required by the National Bank of Georgia (the "**NBG**"), including information provided in "*Regulation of the Georgian Banking Sector—Mandatory Financial Ratios*", which are calculated in accordance with NBG requirements. The measures required by the NBG are supplemental measures of the Bank's performance, are not in accordance with IFRS and may not be comparable to similarly titled measures of other companies. These measures should not be considered as an alternative to measures derived in accordance with IFRS.

Market, Industry and Economic Information

The Bank obtained the market data used in this Prospectus from internal surveys, industry sources and public information currently available. The main source for market information and foreign exchange data used in this Prospectus is the NBG. The Bank obtained Georgian macroeconomic data principally from the Legal Entity of Public Law National Statistics Office of Georgia ("**Geostat**"), the Government of Georgia, the International Monetary Fund ("**IMF**"), Business Monitor International and the Georgian National Tourism Agency. Information regarding the banking market in Ukraine and Belarus has been obtained from the National Bank of Ukraine (the "**NBU**") and the National Bank of the Republic of Belarus (the "**NBRB**"), respectively. Bank of Georgia accepts responsibility for having correctly reproduced information obtained from third parties, and, so far as the Bank is aware and has been able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

General Information

Unless otherwise stated, all information contained in this Prospectus, including all historical financial information, is information of the Bank and the Group.

Except to the extent expressly set out in this Prospectus, neither the contents of the Bank's or the Group's website (or any other website) nor the content of any website accessible from hyperlinks on the Bank's or the Group's website (or any other website) is incorporated into, or forms part of, this Prospectus.

Capitalised terms have the meanings ascribed to them in the "*Definitions*" section of this Prospectus.

Currency and Exchange Rates

In this Prospectus, all references to "Lari" and "GEL " are to the lawful currency of Georgia; all references to "dollars," "US dollars", "US$" and "USD" are to the lawful currency of the United States of America; all references to "Euros", "€" and "EUR" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended; all references to "pounds sterling", "£" or "GBP" are to the lawful currency of the United Kingdom; all references to "UAH" are to the lawful currency of Ukraine; all references to "BYR" are to the lawful currency of the Republic of Belarus; all references to "HUF" are to the lawful currency of the People's Republic of Hungary; and all references to "INS" are to the lawful currency of Israel. References to "billions" are to thousands of millions.

Solely for the convenience of the reader, this Prospectus contains translations of certain Lari amounts into US dollars at exchange rates established by the NBG and effective as of the dates, or for the periods, specified herein. These exchange rates may differ from the actual rates used in the preparation of the Financial Statements and other financial information appearing in this Prospectus. The inclusion of these exchange rates is not meant to suggest that the Lari amounts actually represent such US dollar amounts or that such amounts could have been converted into US dollars at any particular rate, or at all.

The following table sets forth, for the years indicated, the high, low, average and period-end official exchange rates as reported by the NBG, in each case for the purchase of Lari, all expressed in Lari per US dollar.

	High	**Low**	**Average**	**Period End**
		(Lari per US dollar)		
2012	1.675	1.619	1.651	1.657
2011	1.811	1.639	1.686	1.670
2010	1.888	1.693	1.783	1.773
2009	1.695	1.640	1.670	1.686

Source: NBG.

The following table sets forth, for the months indicated, the high, low, average and period-end official exchange rates as reported by the NBG, in each case for the purchase of Lari, all expressed in Lari per US dollar.

	High	**Low**	**Average**	**Period End**
		(Lari per US dollar)		
October 2013 (up to and including 28 October 2013)	1.668	1.662	1.665	1.668
September 2013	1.668	1.656	1.662	1.664
August 2013	1.669	1.654	1.662	1.662
July 2013	1.657	1.651	1.655	1.654
June 2013	1.672	1.648	1.656	1.651
May 2013	1.652	1.635	1.642	1.641
April 2013	1.658	1.648	1.654	1.651
March 2013	1.662	1.657	1.659	1.658
February 2013	1.661	1.653	1.657	1.654
January 2013	1.668	1.656	1.659	1.657

Source: NBG.

The Lari per US dollar exchange rate reported by the NBG on 28 October 2013 was GEL 1.668.

USE OF PROCEEDS

The net proceeds received by the Bank from the issuance of the Further Notes (after deduction of fees and estimated expenses), which are expected to be approximately US$160,825,791.67, will be used for financing existing liabilities, issuing loans, re-funding acquisitions (if appropriate opportunities arise) and other general working capital purposes.

The listing expenses in connection with the issue of the Further Notes are expected to be up to US$15,000.

CAPITALISATION AND INDEBTEDNESS

The following table shows the capitalisation of the Group as of 30 June 2013 and 31 December 2012 and has been extracted without material adjustment from the Group's Financial Statements. This information should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Financial Statements.

	As of 30 June 2013		As of 31 December 2012
	(unaudited)		*(audited)*
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*
Long-term debt[2]			
Senior long-term debt	446,019	736,378	758,943
Subordinated long-term debt	126,127	208,236	208,244
Total long-term debt, net of current portion	**572,146**	**944,614**	**967,187**
Equity			
Share capital	22,116	36,513	36,513
Additional paid-in-capital	364,804	602,291	615,627
Treasury shares	(281)	(464)	(464)
Other reserves	27,337	45,133	25,821
Retained earnings	270,988	447,402	408,538
Total equity attributable to shareholders of the Bank	**684,964**	**1,130,875**	**1,086,035**
Non-controlling interests	30,310	50,041	43,751
Total equity	**715,274**	**1,180,916**	**1,129,786**
Total capitalisation[3]	**1,287,420**	**2,125,530**	**2,096,973**

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) "Long-term debt" excludes indebtedness with a maturity of less than one year.

(3) Total capitalisation is the sum of long-term debt, non-controlling interests and total equity attributable to shareholders of the Bank.

For further information, see "*Funding—Amounts due to Credit Institutions*".

Save as disclosed under "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments*", there have been no material changes to the Group's capitalisation since 30 June 2013.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated financial information of the Group as of and for the years ended 31 December 2012, 2011 and 2010, and the six months ended 30 June 2013 and 2012. They have been extracted without material adjustment from, should be read in conjunction with, and are qualified in their entirety by, the Financial Statements and the notes thereto, as well as the sections entitled "*Capitalisation and Indebtedness*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Selected Statistical and Other Information*" and "*Funding*" included elsewhere in this Prospectus.

Consolidated Income Statement

The following tables set out the Group's consolidated profits for the periods indicated.

	For the six months ended 30 June			
	2013			2012
	(unaudited)			
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*
Interest income	173,133	285,842	3.4%	276,528
Interest expense	(81,867)	(135,163)	(1.9)%	(137,812)
Net interest income before net losses from interest rate swaps	**91,266**	**150,679**	**8.6%**	**138,716**
Net losses from interest rate swaps	(112)	(185)	(82.4)%	(1,053)
Net interest income	**91,154**	**150,494**	**9.3%**	**137,663**
Fee and commission income	33,251	54,898	6.6%	51,477
Fee and commission expense	(7,597)	(12,543)	32.2%	(9,485)
Net fee and commission income	**25,654**	**42,355**	**0.9%**	**41,992**
Net insurance revenue	13,764	22,724	90.0%	11,957
Net healthcare revenue	5,446	8,991	(2.2)%	9,196
Net revenue from sale of goods	3,076	5,078	(5.3)%	5,360
Other operating non-interest income	19,798	32,686	(1.8)%	33,286
Revenue	**158,892**	**262,328**	**9.6%**	**239,454**
Other operating non-interest expenses	(65,215)	(107,670)	(0.7)%	(108,429)
Operating income before cost of credit risk	**93,677**	**154,658**	**18.0%**	**131,025**
Cost of credit risk	(21,963)	(36,261)	160.0%	(13,947)
Net operating income	**71,714**	**118,397**	**1.1%**	**117,078**
Impairment of goodwill, intangible assets and property and equipment	–	–	(100.0)%	(910)
Net non-operating expense	(3,303)	(5,453)	(2.5)%	(11,483)
Profit before income tax expense	**68,411**	**112,944**	**7.9%**	**104,685**
Income tax expense	(9,836)	(16,239)	(7.4)%	(17,542)
Profit for the period	**58,575**	**96,705**	**11.0%**	**87,143**
Earnings per share				
- basic	1.574	2.599	4.8%	2.479
- diluted	1.574	2.599	5.6%	2.467

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

	For the years ended 31 December					
	2012		2011		2010	
			(audited)			
	(thousands of US dollars)[(1)]	*(Thousands of Lari)*	*Change (%)*	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*
Interest income	342,669	567,803	13.3%	501,358	18.5%	423,141
Interest expense	(170,173)	(281,976)	5.6%	(267,057)	29.1%	(206,797)
Net interest income before net (losses) gains from interest rate swaps	**172,496**	**285,827**	**22.0%**	**234,301**	**8.3%**	**216,344**
Net (losses) gains from interest rate swaps	(1,032)	(1,710)	(134.3)%	4,984	(163.7)%	(7,826)
Net interest income	**171,464**	**284,117**	**18.7%**	**239,285**	**14.8%**	**208,518**
Fee and commission income	65,949	109,278	16.8%	93,541	26.0%	74,265
Fee and commission expense	(13,404)	(22,210)	22.0%	(18,204)	67.9%	(10,845)
Net fee and commission income	**52,545**	**87,068**	**15.6%**	**75,337**	**18.8%**	**63,420**
Net insurance revenue	20,602	34,138	92.5%	17,738	6.5%	16,663
Net healthcare revenue	14,089	23,346	849.8%	2,458	326.7%	576
Net revenue from sale of goods	6,436	10,665	2.9%	10,361	13.9%	9,094
Other operating non-interest income	35,909	59,502	(32.8)%	88,574	89.5%	46,730
Revenue	**301,045**	**498,836**	**15.0%**	**433,753**	**25.7%**	**345,001**
Other operating non-interest expenses	(131,889)	(218,540)	4.0%	**(210,165)**	6.1%	**(198,135)**
Operating income before cost of credit risk	**169,156**	**280,296**	**25.4%**	**223,588**	**52.2%**	**146,866**
Cost of credit risk	(26,987)	(44,717)	101.5%	(22,196)	(53.5)%	(47,698)
Net operating income	**142,169**	**235,579**	**17.0%**	**201,392**	**103.1%**	**99,168**
Impairment of goodwill, intangible assets and property and equipment	(576)	(954)	(95.9)%	(23,394)	5277.9%	(435)
Net non-operating expense	(11,273)	(18,680)	214.3%	(5,944)	1949.7%	(290)
Profit before income tax expense from continuing operations	**130,320**	**215,945**	**25.5%**	**172,054**	**74.8%**	**98,443**
Income tax expense	(20,036)	(33,200)	57.2%	(21,125)	33.9%	(15,776)
Profit for the period from continuing operations	**110,284**	**182,745**	**21.1%**	**150,929**	**82.6%**	**82,667**
Net loss from discontinued operations	–	–	(100.0)%	(15,219)	–	–
Profit for the period	**110,284**	**182,745**	**34.7%**	**135,710**	**64.2%**	**82,667**
Earnings per share						
- basic	3.258	5.399	21.7%	4.438	59.4%	2.785
- diluted	3.227	5.347	27.4%	4.196	53.2%	2.739

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

Consolidated Statement of Financial Position

The following tables set out the Group's assets, liabilities and equity as of the dates indicated.

	As of 30 June		As of 31 December
	2013		2012
	(unaudited)		*(audited)*
Assets	*(thousands of US dollars)*[(1)]	*(thousands of Lari)*	*(thousands of Lari)*
Cash and cash equivalents	326,036	538,285	750,517
Amounts due from credit institutions	197,781	326,537	396,559
Investment securities available-for-sale	440,432	727,153	534,698
Loans to customers, net	1,882,488	3,107,988	3,033,667
Finance lease receivables	16,494	27,232	71,686
Investments in associates	–	–	2,441
Investment properties	102,800	169,722	160,353
Property and equipment	270,869	447,205	430,877
Goodwill	27,654	45,657	45,657
Intangible assets	14,560	24,039	23,078
Income tax assets:			
- current	1,034	1,707	944
- deferred	8,621	14,234	14,352
Prepayments	18,250	30,130	41,147
Other assets	180,288	297,655	221,042
Total assets	**3,487,307**	**5,757,544**	**5,727,018**
Liabilities			
Amounts due to customers	1,727,906	2,852,772	2,693,025
Amounts due to credit institutions	893,813	1,475,686	1,657,162
Income tax liabilities:			
- current	3,781	6,242	13,818
- deferred	34,595	57,116	48,320
Other liabilities	111,938	184,812	184,907
Total liabilities	**2,772,033**	**4,576,628**	**4,597,232**
Equity			
Share capital	22,116	36,513	36,513
Additional paid-in capital	364,804	602,291	615,627
Treasury shares	(281)	(464)	(464)
Other reserves	27,337	45,133	25,821
Retained earnings	270,988	447,402	408,538
Total equity attributable to shareholders	**684,964**	**1,130,875**	**1,086,035**
Non-controlling interest	30,310	50,041	43,751
Total equity	**715,274**	**1,180,916**	**1,129,786**
Total liabilities and equity	**3,487,307**	**5,757,544**	**5,727,018**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

	As of 31 December			
	2012		2011	2010
	(audited)			
Assets	*(thousands of US dollars)*[1]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Cash and cash equivalents	452,937	750,517	628,731	611,584
Amounts due from credit institutions	239,323	396,559	289,530	116,469
Investment securities:				
- available for sale	322,690	534,698	419,576	294,940
- held-to-maturity	—	—	—	21
Loans to customers	1,830,819	3,033,667	2,553,442	2,351,697
Finance lease receivables	43,263	71,686	62,919	14,419
Investments in associates	1,473	2,441	3,014	5,632
Investment properties	96,773	160,353	101,686	113,496
Property and equipment	260,034	430,877	348,110	285,852
Goodwill	27,554	45,657	46,195	69,212
Intangible assets	13,928	23,078	21,222	22,390
Income tax assets:				
- current	570	944	8,487	2,247
- deferred	8,661	14,352	14,852	18,178
Prepayments	24,832	41,147	29,929	23,365
Other assets	133,399	221,042	137,568	75,420
Total assets	**3,456,256**	**5,727,018**	**4,665,261**	**4,004,922**
Liabilities				
Amounts due to customers	1,625,241	2,693,025	2,735,222	2,026,308
Amounts due to credit institutions	1,000,098	1,657,162	921,172	1,138,927
Income tax liabilities:				
- current	8,339	13,818	1,174	4,251
- deferred	29,161	48,320	36,242	30,901
Other liabilities	111,590	184,907	158,848	111,194
Total liabilities	**2,774,429**	**4,597,232**	**3,852,658**	**3,311,581**
Equity				
Share capital	22,036	36,513	32,878	31,345
Additional paid-in capital	371,531	615,627	473,732	477,285
Treasury shares	(280)	(464)	(3,146)	(1,510)
Other reserves	15,583	25,821	14,478	26,816
Retained earnings	246,553	408,538	254,588	130,314
Total equity attributable to shareholders	**655,423**	**1,086,035**	**772,530**	**664,250**
Minority interest	26,404	43,751	40,073	29,091
Total equity	**681,827**	**1,129,786**	**812,603**	**693,341**
Total liabilities and equity	**3,456,256**	**5,727,018**	**4,665,261**	**4,004,922**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

Selected Financial Ratios

The following table sets out the Group's selected financial ratios and the Bank's standalone Tier 1 and total capital adequacy ratios for the periods indicated.

	As of and for the six months ended	As of and for the years ended 31 December		
	30 June 2013	2012	2011	2010
			(unaudited)	
Profitability ratios:				
ROAA(1)	3.4%	3.5%	3.5%	2.4%
ROAE(2)	17.0%	19.3%	20.6%	13.5%
Interest expense to interest income	47.4%	50.0%	52.3%	50.7%
Interest income to average interest-earning assets	14.0%	15.1%	15.6%	16.5%
Cost of funds(3)	6.3%	7.1%	7.7%	8.0%
Net spread(4)	7.7%	8.0%	7.9%	8.5%
Net interest margin(5)	7.3%	7.6%	7.5%	8.1%
Currency-blended loan yield(6)	16.5%	17.5%	16.9%	17.9%
Currency-blended deposit cost(7)	6.2%	7.5%	7.0%	7.0%
Net fee and commission income to revenue(8)	16.1%	17.5%	17.4%	18.4%
Net non-interest income to revenue(9)	42.6%	43.0%	44.8%	39.6%
Efficiency ratios:				
Cost to income ratio(10)	41.0%	43.8%	48.5%	57.4%
Other operating non-interest expense to average total assets	3.8%	4.2%	4.8%	5.7%
Salaries and other employee benefits to total operating income(11)	24.6%	24.3%	26.4%	30.1%
Salaries and other employee benefits to other operating non-interest expense(11)	59.8%	55.5%	54.5%	52.4%
Liquidity ratios (at period end):				
Net loans to total assets	54.0%	53.0%	54.7%	58.7%
Net loans to amounts due to customers	108.9%	112.6%	93.4%	116.1%
Net loans to total deposits(12)	98.6%	97.1%	91.4%	108.8%
Net loans to total liabilities	67.9%	66.0%	66.3%	71.0%
Interest-earnings assets(5) to total assets	72.2%	71.6%	73.3%	74.9%
Liquid assets to total assets(13)	27.7%	29.4%	28.7%	25.5%
Total deposits to total assets(12)	54.8%	54.6%	59.9%	54.0%
Amounts due to customers to total deposits	90.5%	86.2%	97.9%	93.8%
Amounts due to customers to total equity (times)	2.4	2.4	3.4	2.9
Amounts due from credit institutions to amounts due to credit institutions, except for borrowings from international credit institutions	108.7%	91.9%	497.7%	86.3%
Total equity to net loans	38.0%	37.2%	31.8%	29.5%
Leverage, (times)(14)	3.9	4.1	4.7	4.8
Asset quality:				
Allowance at period end for loan impairment to gross loans(15)	3.6%	3.5%	4.3%	6.9%
Impairment of interest-earning assets for the period to average interest-earning assets	1.1%	1.1%	0.7%	1.7%
Impairment charge on loans to customers to average gross loans to customers (cost of risk)	1.3%	1.3%	0.9%	2.3%
Capital adequacy (at period end):				
Consolidated capital adequacy ratio(16)	22.6%	22.6%	19.9%	17.5%
Consolidated Total capital adequacy ratio(16) (17)	28.2%	28. 2%	28.5%	26.6%
Standalone Tier I capital adequacy ratio(18)	25.0%	23.9%	21.6%	23.3%
Standalone Total capital adequacy ratio(18) (19)	31.2%	30.1%	31.9%	28.4%

Notes:

(1) ROAA (return on average total assets): profit (loss) for the period from continuing operations divided by average totals assets for the period. For purposes of all of the ratios in the table above, average amounts are calculated as follows: outstanding balance at the beginning of the period, plus outstanding balance at the end of the period, divided by two.

(2) ROAE (return on average total equity): profit (loss) for the period from continuing operations attributable to shareholders of the Bank divided by average total equity as of 31 December of the relevant period attributable to shareholders of the Bank.

(3) Cost of funds equals interest expense divided by average interest bearing liabilities of the period. Interest bearing liabilities include amounts owed to credit institutions and amounts owed to customers.

(4) Net spread is calculated as the difference between cost of funds and interest income from average interest-earning assets.

(5) Net interest income divided by average-interest-earning assets for the period. Interest-earning assets include time deposits with credit institutions with effective maturity up to 90 days, amounts due from credit institutions, loans to customers (net), finance lease receivables (net) and investment securities (interest-earning securities only).

(6) The currency-blended loan yield equals total interest income from loans of the period divided by the average total gross loans for the same period.

(7) The currency-blended deposit cost equals total interest expense from amounts due to customers during the relevant period divided by the average total amounts due to customers as of 31 December and 30 June 2013 of the relevant period.

(8) Revenue includes net interest income, net fee and commission income, net insurance revenue and other operating non-interest income.

(9) Net non-interest income is the sum of net fee and commission income, net insurance revenue and other operating non-interest income.
(10) Cost to income ratio equals other operating non-interest expense divided by revenue for the period.
(11) Salaries and other employee benefits amounted to GEL 103.9 million, GEL 114.6 million, GEL 121.3 million and GEL 64.4 million for the periods ended 31 December 2010, 2011 and 2012 and 30 June 2013, respectively.
(12) Total deposits include amounts owed to customers and amounts owed to credit institutions except for the borrowings from credit institutions.
(13) Liquid assets include cash and cash equivalents, amounts due from credit institutions and investment securities. Liquid assets amounted to GEL 1,023.0 million, GEL 1,337.8 million, GEL 1,681.8 million and GEL 1,592.0 million for the years ending 31 December 2010, 2011, 2012 and for the six months ended 30 June 2013, respectively.
(14) Total liabilities divided by total equity.
(15) Allowance for loan impairment amounted to GEL 175.5 million, GEL 114.7 million, GEL 110.0 million and GEL 116.9 million as of 31 December 2010, 2011, 2012 and 30 June 2013, respectively.
(16) The consolidated Tier I capital adequacy ratio calculated in accordance with Basel I. The consolidated Tier I capital adequacy ratio of the Group equals the consolidated Tier I capital divided by the consolidated risk-weighted assets. The consolidated Tier I capital amounted to GEL 638.0 million, GEL 764.4 million, GEL 1,060.7 million and GEL 1,086.2 million as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. The consolidated risk-weighted assets amounted to GEL 3,653.2 million, GEL 3,839.5 million, GEL 4,785.9 million and GEL 4,803.1 million as of 31 December 2010, 2011, 2012 and 30 June 2013, respectively.
(17) The consolidated total capital adequacy ratio calculated in accordance with Basel I. The consolidated total capital adequacy ratio of the Group equals total consolidated regulatory capital (Tier I + Tier II - deductions) divided by consolidated risk-weighted assets. The consolidated regulatory capital (Tier I + Tier II - deductions) amounted to GEL 972.0 million, GEL 1,095.3 million, GEL 1,311.8 million and GEL 1,355.8 million as of 31 December 2010, 2011, 2012 and 30 June 2013, respectively.
(18) The standalone Tier I capital adequacy ratio calculated in accordance with Basel I. The standalone Tier I capital adequacy ratio of Bank of Georgia equals the standalone Tier I capital divided by the standalone risk-weighted assets. The standalone Tier I capital amounted to GEL 785.3 million, GEL 796.3 million, GEL 1,078.3 million and GEL 1,110.4 million as of 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. The standalone risk-weighted assets amounted to GEL 3,376.0 million, GEL 3,688.1 million, GEL 4,519.7 million and GEL 4,448.3 million as of 31 December 2010, 2011, 2012 and 30 June 2013, respectively.
(19) The standalone total capital adequacy ratio calculated in accordance with Basel I. The standalone total capital adequacy ratio of Bank of Georgia equals the total standalone regulatory capital (Tier I + Tier II - deductions) divided by the standalone risk-weighted assets. The standalone regulatory capital (Tier I + Tier II - deductions) amounted to GEL 959.4 million, GEL 1,175.7 million, GEL 1,361.3 million and GEL 1,388.3 million as of 31 December 2010, 2011, 2012 and 30 June 2013, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial condition and results of operations of the Group principally covers the years ended 31 December 2012, 2011 and 2010 and the six months ended 30 June 2013 and 2012. Unless otherwise specified, the financial information for the periods presented in this discussion has been extracted from the Financial Statements. This section should be read in conjunction with the Financial Statements and the notes thereto and the other financial information included elsewhere in the Prospectus.

Certain information contained in the discussion and analysis set forth below and elsewhere in this Prospectus includes "forward-looking statements." Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the sections entitled "Risk Factors" and "Forward-Looking Statements." Unless otherwise noted, all information relating to the Bank's market ranking and market share is based on information published by the NBG on 31 December 2012 based on standalone financial information filed with the NBG by various Georgian banks, respectively.

Overview

The Group's strategic businesses are retail banking, corporate banking and investment management. Bank of Georgia is the leading bank in Georgia based on total assets (with a 34.7% market share), total gross loans (with a 34.0% market share) and total customer deposits (with a 32.0% market share), in each case as of 30 June 2013. The following tables set forth selected consolidated figures relating to the Group as of the dates and for the periods specified:

	As of 30 June		As of 31 December			
	2013		2012		2011	2010
	(unaudited)		*(audited)*			
	(thousands of US$) [1]	*(thousands of Lari)*	*(thousands of US$)* [2]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Total assets	3,487,307	5,757,544	3,456,257	5,727,018	4,665,261	4,004,922
Loans to customers, net	1,882,488	3,107,988	1,830,819	3,033,667	2,553,442	2,351,697
Amounts due to customers	1,727,906	2,852,772	1,625,241	2,693,025	2,735,222	2,026,308
Total equity	715,273	1,180,916	681,826	1,129,786	812,603	693,341
Profit (loss) for the period	58,574	96,705	110,287	182,745	135,710	82,667

Notes:
(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.
(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

As of 30 June 2013, the Bank had one of the largest distribution networks in Georgia, with 197 branches, including full-service flagship branches, standard branches and Express Banking branches (including Metro branches (i.e., small branches located in metro stations)), the largest ATM network in Georgia, comprising 481 ATMs, 870 Express Pay (self-service) terminals, a full-service remote banking platform and a modern call centre. As of the same date, the Bank served 1,172,652 retail banking customers (of which more than 100,000 were legal entities and more than 1,000,000 were individuals) and 7,718 corporate banking customers. The banking businesses (excluding BNB) generated 81.0% and 83.2%, respectively, of the Group's total revenue in the six months ended 30 June 2013 and in the year ended 31 December 2012.

In addition to its strategic businesses, the Group also provides insurance and healthcare, affordable housing and brokerage services throughout Georgia that enable the Bank to leverage its client base, distribution networks and sales force. See "*Description of Business—Synergistic Businesses*".

Through its wholly-owned insurance subsidiary, Aldagi, the Group is the leading provider of life and non-life insurance products in Georgia, with market shares of 33.3% of the life and 31.8% of the non-life insurance markets as of 31 December 2012 (based on gross premium revenue).

Through its wholly-owned subsidiary, m2 Real Estate (representing the Bank's affordable housing business), the Group holds real property, primarily in Tbilisi, which the Group acquired through loan work-outs and repossessions from the Bank's defaulted borrowers. m2 Real Estate develops and sells affordable residential apartments and manages such investment properties. It has completed a 123 apartment project and is currently in the process of developing a 522 apartment project. m2 Real Estate plans to continue developing its affordable housing business, including the development and sale or leasing of approximately 1,300 flats within the next three to four years, to support its strategic retail mortgage lending business, to improve the liquidity of its repossessed real estate assets, and to capitalise on the current unsatisfied demand for affordable housing in Tbilisi (which has depreciated housing stock and an average household size of 3.6, according to the Georgian Residential Market Report prepared by Gremo and Jones Lang Lassale. The Group also provides brokerage and investment banking services in Georgia, through its subsidiary BG Capital.

The Group's non-core businesses comprise BNB and Liberty Consumer, which were created as part of the Group's previous strategy. Through BNB, the Bank's subsidiary, the Group provides retail banking and corporate banking services in Belarus. Most of the Group's other investments are held through Liberty Consumer, a Georgia-focused investment company in which the Bank holds a 68% stake.

Factors Affecting the Group's Financial Statements

Key factors affecting the Group's Financial Statements are discussed below.

Macroeconomic Conditions

The Group operates primarily in Georgia. Georgian operations accounted for 95.2% (reflecting the disposal of BG Bank in February 2011) of the Group's total consolidated revenue for the six months ended 30 June 2013, and 95.7%, 88.4% and 90.7% for the years ended 31 December 2012, 2011 and 2010, respectively. Accordingly, its results of operations and financial condition are and will continue to be significantly affected by Georgian political and economic factors, including the economic growth rate, the rate of inflation, fluctuations in exchange rates and interest rates and FDI.

The Group has benefitted from the recovery in the Georgian economy, which began in the second half of 2009 and continued in 2010, 2011 and 2012, though began to weaken towards the end of 2012 and into 2013. According to Geostat, Georgia experienced real GDP growth of 6.3% in 2010 and 7.2% in 2011 and an estimated 6.1% in 2012. Georgia's current account deficit was US$1,192.7 million for the year ended 31 December 2010 and its public debt as a percentage of GDP was 42.4% as of 31 December 2010, according to the Government of Georgia. According to Geostat, inflation in Georgia increased to 11.2% for the year ended 31 December 2010, decreasing to 2.0% for the year ended 31 December 2011. The increase in annual inflation in 2010 was mostly due to exogenous factors, such as food price increases. FDI increased to US$1,117.2 million in 2011 from US$814.5 million in 2010 and US$658.4 million in 2009. In addition, over the same period Georgia experienced an increase in donor funding, representing long-term loans on concessionary terms and grants pledged by the international community to Georgia following the 2008 Conflict in the amount of US$4.5 billion and an increase in tourist inflows. As of 31 December 2011, approximately US$2.5 billion of donor funding had been disbursed, and Georgia had entered into firm commitments with respect to all of the remaining amounts pledged. According to the Georgian National Tourism Agency, the number of non-resident visitors that entered the country increased from 1,290,108 visitors in 2008 to 2,031,717 visitors in 2010 to 2,822,363 visitors in 2011.

The Georgian economy continued to recover in 2012, recording an estimated 6.1% real GDP growth during the year, according to Geostat. Economic growth was stronger in the first half of the year compared to the second half, when the slowdown reflected lower corporate investment levels in both the pre and post domestic parliamentary election period. According to Geostat, FDI fell to an estimated US$911.6 million and year-end annual inflation was negative 1.4%, primarily due to an economic slowdown following increased political uncertainty prior to the domestic parliamentary elections. See also "*Risk Factors−Macroeconomic Risks and Political Risks Related to Georgia−As most of the Group's businesses operate only within Georgia, the Group's success is dependent on a number of economic, political and other factors affecting Georgia that are beyond its control*". In light of weakening economic activity and deflation, the NBG eased its monetary policy, lowering the refinancing rate from 6.75% in 2011 to 5.25% in 2012, while its foreign currency reserves continued to grow, reaching a record high of US$2.9 billion in December 2012. Georgia's current account deficit for 2012 was GEL 1,853.7 million, or 11.7% of GDP, which was financed by foreign capital. In the first half of 2013, Georgia's real GDP grew by an estimated 1.8%, and end-of-period inflation reached 0.2% as of 30 June 2013. In the first half of 2013, the NBG continued to lower rates, bringing the refinancing rates to a record low of 4.0%. Declining refinancing rates supported the de-dollarisation efforts by the NBG and Bank of Georgia, in particular, as the share of Lari denominated loans and deposits improved from 31.9% and 31.1%, respectively, as of 31 December 2012, to 33.1% and 34.6%, respectively, as of 30 June 2013. The current account deficit was an estimated US$425.1 million as of 30 June 2013, a decrease of 56.6% since 30 June 2012. The number of non-resident visitors to Georgia increased by 29.2% to 2.2 million, as compared to 1.7 million in the first half of 2013. Despite the economic slowdown, tourism increased during the periods under review. According to the Georgian National Tourism Agency, Georgia hosted 4,428,221 non-resident visitors in 2012, a 56.9% year-on-year increase from 2,822,363 non-resident visitors in 2011. Net remittances grew by 5.0% in 2012 reaching US$1.2 billion, while services exports grew by 26.7% to US$2.5 billion. Georgia's public debt as a percentage of GDP declined further from 37% in 2011 to 35% in 2012, according to preliminary figures. In addition, the Lari exchange rate compared to other foreign currencies remained relatively stable in 2012, as discussed further below.

The Group reported revenues of GEL 498.8 million (US$301.0 million) in 2012, GEL 433.8 million in 2011 and GEL 262.3 million (US$158.9 million) in the first half of 2013 (representing a 9.6% increase from GEL 239.5 million in the first half of 2012).

Non-interest income

The Group aims to further diversify its revenue base by increasing non-interest income sources and growing its synergistic businesses with the view to increasing their respective contributions to the consolidated revenue of the Group. In 2010, Aldagi, the Group's insurance and healthcare business, contributed 5.6% to the Group's consolidated revenue and 6.1% to the Group's consolidated net income. In 2011, reflecting the growth of the Group's insurance and healthcare businesses, supported by the economic recovery of Georgia, the Group's insurance and healthcare revenue increased by 19.4% from GEL 19.3 million in 2010 to GEL 23.0 million in 2011, while profit increased by 29.9% from GEL 5.0 million to GEL 6.5 million during the period. In 2012, as a result of organic growth of the business, improved claims management and expansion of both insurance and healthcare businesses through acquisitions (see "*–Acquisitions*"), the contribution of insurance and healthcare businesses to the Group's consolidated revenue increased to 11.0% from 5.3% in 2011, while the contribution to the Group's consolidated net income increased to 8.5% in 2012 from 4.8% in 2011. The contributions of healthcare and insurance business increased further to 11.2% and 11.8% of the Group's consolidated revenue and net income for the first six months of 2013, respectively, for the period.

The Group's affordable housing business, which consists of the Group's subsidiary m2 Real Estate develops and sells residential apartments and also holds investment properties repossessed by the Bank from defaulted borrowers and manages those properties. m2 Real Estate business supports the Group's retail mortgage lending business and is placed to capitalise on the current unsatisfied demand for housing in Tbilisi. m2 Real Estate posted its first profit in the first half of 2013. Overall, the Bank's synergistic businesses of insurance, healthcare, and affordable housing, became key drivers in increasing the ratio of non-interest income to total revenue from 39.6% in 2010 to 43.0% in 2012. In the first half of 2013, non-interest income to total revenue ratio was 42.6%.

Non-interest income sources also include net fee and commission income, which increased 18.8% to GEL 75.3 million in 2011 from GEL 63.4 million in 2010 and increased by 15.6% to GEL 87.1 million in 2012. Net fee and commission income further increased by 0.9% to GEL 42.4 million in the first half of 2013 from GEL 42.0 million in the first half of 2012. The increase in net fee and commission income reflects the expansion of the Group's transactional and remote banking operations as a result of the successful roll-out of the Bank's Express Banking strategy. In addition, the Group's non-interest income includes other operating non-interest income (see "*−Consolidated Income Statement−Six Months Ended 30 June 2013 and 2012−Other Operating Non-interest Income*").

Cost of Credit Risk

The Group had loan impairment charges of GEL 118.9 million in 2009 due to the impact of the 2008 Conflict and the global financial crisis, and the subsequent weakening of the Georgian economic environment and its impact on the Group's clients, including their ability to service their loans. In 2010, the Group's allowance for loan impairment losses continued to increase (although at a slower rate), primarily reflecting the growth of the loan portfolio. As of 31 December 2011, the Group's allowances for loan impairments decreased to GEL 114.7 million, despite continued growth of the loan portfolio, reflecting, in particular, the effect of the Group disposing of an 80.0% equity interest in BG Bank in February 2011, as BG Bank had significant allowances for loan impairment. Loan impairment charges decreased to GEL 49.9 million in 2010 and to GEL 23.2 million in 2011 as a result of improved economic circumstances from the second half of 2009 onwards and partial recoveries in 2011.

In 2012, the Group had a cost of credit risk of GEL 44.7 million reflecting the increased impairment charges related to job reductions made in a large payroll client during the year and a single corporate client in the fourth quarter of the year. The increased impairment charges in 2012, as compared to 2011, also reflects the growth of the loan portfolio and the absence of the recoveries of 2011. In the first half of 2013, loan impairment charges were GEL 20.3 million, as compared to loan impairment charges of GEL 13.0 million in the first half 2012. The increase in the first half of 2013, as compared to the first half of 2012, was primarily attributable to both retail banking and corporate banking loan books, as well as to the developments as described above.

Changes in Customer Deposits

Customer funds (amounts due to customers) are the Group's largest source of funding, accounting for 58.6% of total liabilities as of 31 December 2012, as compared to 71.0% and 61.2% as of 31 December 2011 and 2010, respectively. The increased consumer confidence in Georgia following a period of relative political stability after the 2008 Conflict and, from 2010, the beginning of the recovery of the Georgian economy from the global financial crisis, resulted in the growth of customer funds from GEL 2,026.3 million in 2010 to GEL 2,852.8 million as of 30 June 2013. From 31 December 2010, customer funds increased to GEL 2,735.2 million as of 31 December 2011, reflecting economic recovery trends and the strength of the Bank's franchise. In 2012, as a result of the targeted reduction of interest rates on selected maturities on both foreign currency and Lari customer deposits with the view of decreasing cost of deposits, customer funds decreased to GEL 2,693.0 million as of 31 December 2012, before increasing to GEL 2,852.8 million in the first half of 2013, despite the further significant reductions of rates on customer deposits. See "*Cost of Funds*".

Changes in the Loan Portfolio

Increases or decreases in the Group's loan portfolio impact the Group's interest income. In addition, the proportion of loans to the Group's total interest-earning assets also impacts interest income as non-loan interest-earning assets (which are primarily short term cash and cash equivalents or amounts due from credit institutions or investment securities) generally have lower yields. Loans accounted for 74.7% of the Group's total interest-earning assets as of 30 June 2013, as compared to 73.9%, 74.7% and 78.4% as of 31 December 2012, 2011 and 2010, respectively. As of 30 June 2013, Lari-denominated loans comprised 33.1% of total loans, as compared to 31.9%, 32.0% and 23.0% of total loans as of 31 December 2012, 2011 and 2010, respectively. The increase in the proportion of loans as proportion of the Group's interest earning assets during the first half of 2013 reflected the increase in total gross loans in the period while combined other interest earning assets declined. Although the value of the Group's total gross loans increased during 2011 and 2012, loans as a proportion of interest-earning assets decreased, principally due to the Group investing in Ministry of Finance treasury securities and NBG certificates of deposit (which were subject to certain size restrictions prior to 22 January 2010).

The value of the Group's total gross loans increased during 2010 and 2011, principally due to an increase in lending in 2010 and 2011 as a result of the Georgian economy beginning to recover from the impact of the 2008 Conflict and the global economic downturn in the second half of 2009. Corporate lending was more significantly affected by the 2008 Conflict and the economic downturn than retail lending, and the business experienced higher growth in the recovery. In 2011, higher yielding micro and consumer lending grew faster than mortgage lending.

In response to high consumer price inflation in the second part of 2010 and the beginning of 2011, the NBG tightened Georgian monetary policy by increasing the refinancing rate and reserve requirements on foreign currency customer deposits and non-subordinated borrowings. Despite this, the net loan book of the Group (excluding BG Bank) grew by 15.7% in 2011. Since then, inflation declined throughout 2012, with inflation turning into 1.4% deflation as of 31 December 2012 and increasing to 0.2% as of 30 June 2013. In order to address deflationary pressures, the NBG has reduced the refinancing rates several times in 2012 and 2013. See "*Risk Management—Liquidity Risk*".

The Group's consolidated net loans to customers increased by GEL 74.3 million, or 2.4%, from GEL 3,033.7 million as of 31 December 2012 to GEL 3,108.0 million as of 30 June 2013. Net loans to customers accounted for 74.7% of the Group's total interest-earning assets as of 30 June 2013, as compared to 73.9% as of 31 December 2012. Reflecting a shift away from foreign currency denominated customer deposits and the increase in the proportion of Lari-denominated customer deposits, the portion of the Group's consolidated total gross loans comprised of Lari-denominated gross loans increased to 33.1% as of 30 June 2013, as compared to 31.9% as of 31 December 2012.

Cost Management

The Group has implemented a number of cost management measures to mitigate the negative impact of the global economic downturn. In 2008 and 2009 to a large extent, these cost management measures comprised the disposal, or reduction in size, of the Group's non-core businesses and business processes and reduction in associated costs. In the second half of 2009, the Georgian economy began to recover from the impact of the 2008 Conflict and the global economic downturn and, as a result, in 2010, the Group shifted its emphasis away from cost management (except in relation to its Ukrainian operations) towards managed, cautious growth, cost optimisation and operational efficiency improvements, focusing in particular on increased investments in technology and improving business processes. In line with this new strategy, the Group began to hire new employees in Georgia, customer deposits increased and the Group's revenues and overall income statement improved. In particular, the Group's (including BG Bank's results) cost to income ratio decreased from 66.1% in 2009 to 57.4% in 2010 and the Group's other operating non-interest expense per average total assets improved from 6.3% in 2009 to 5.7% in 2010.

In 2010, the Group announced that cost efficiency would be its strategic priority for the next several years and underlined its focus on decreasing its cost to income ratio. In 2011, cost efficiency measures allowed the Group to further decrease its cost to income ratio to 48.5%. Primarily due to the growing economy and significantly improved operating environment in Georgia, the Group's revenue grew by 25.7% in 2011, while operating expense grew by 6.1%, reflecting the management's cost efficiency measures, as well as the disposal of BG Bank in Ukraine in February 2011. In 2012, the Group's cost base continued to improve as a result of several cost efficiency measures undertaken by the Group, including investments in technology to optimise workflow processes and the introduction of an Express Banking model for cost efficient transactional banking. Consequently, in 2012, operating expense increased by 4.0%, as compared to the same period in 2011, while revenue increased by 15.0% between the same periods, and as a result, the Bank's cost to income ratio in 2012 declined to 43.8%. In the first half of 2013, Management continued its focus on cost efficient management, which, coupled with the further rollout of Express Banking, resulted in the decrease of operating expenses to GEL 107.7 million from GEL 108.4 million, or 0.7%, in the first half 2012 while revenue increased by 9.6% between the same periods. In 2013, the Group introduced a new approach to cost budgeting, cost analysis and control procedures across the whole Group.

The Bank introduced cost centre reporting (by departments) on a monthly basis. Detailed cost budgets and performance by each department or cost unit are monitored and distributed across the Bank on a monthly basis. Deviations and efficiency opportunities are identified by the Bank's finance department and by Management, who then conduct regular meetings with departments or business units. The Bank has also introduced a detailed service centre efficiency project. Pursuant to this project, the cost efficiency of each of the Group's subsidiaries is being reported and analysed separately on a regular basis, with feedback provided to the respective subsidiary. As a result of these and other measures across the Group, the Group decreased its cost to income ratio during the first half of 2013 to 41.0%, having improved from 45.3% for the first half 2012.

Cost of Funds

The Group's principal sources of funding are amounts due to customers, amounts due to credit institutions (including current accounts and term deposits and inter-bank loans from the inter-bank market, which are used by the Group to manage its short-term liquidity needs, as well as borrowings from international credit institutions as a source of long-term funding) and equity funding. During the economic downturn, the costs of borrowing in the wholesale debt markets increased, the debt capital markets were effectively closed to banks in emerging markets and DFIs became the principal sources of long-term funding for the Group. In 2010, the Group continued to borrow from DFIs, signing agreements totalling US$150 million and with terms between five and seven years. In 2011, the Group raised a further US$86.3 million in borrowings from international credit institutions (either already drawn down or yet undrawn, including funding raised by m2 Real Estate and Aldagi). Deposit funding grew significantly in 2010 and 2011, thus reducing the Group's dependence on DFIs and wholesale funding. At the same time, the currency-blended deposit cost stayed flat at 7.0% in 2010 and 2011. The inflow of deposits enabled the Bank to reduce deposit rates, especially on the more costly Lari denominated deposits. On 3 August 2011, the Bank announced that it had reduced interest rates on both foreign currency and Lari term deposits (including retail, investment management and corporate deposits), in line with trends across the Georgian economy. Interest rates on the Bank's foreign currency retail and corporate banking customer deposits with different maturities decreased by 1.0% - 1.5% through the end of 2011. In 2012 and the first half of 2013, in line with general trends across the economy and its aim to decrease its funding costs, the Group continued to reduce interest rates on retail, corporate and investment management customer deposits. In particular, interest rates on the Bank's foreign currency and Lari retail, corporate banking and investment management customer deposits with different maturities have been reduced by up to 300 basis points from 31 December 2012 to 30 June 2013, while amounts due to customers grew from GEL 2,693.0 million to GEL 2,852.8 million during the same period. Consequently, the Group's currency blended deposit costs improved from 7.0% in 2010 and 2011 to 7.5% in 2012 and to 6.2% in the first half of 2013. In 2012, the Group continued to borrow from international markets with the view to further optimise cost of funds and issued the Existing Notes, its second Eurobond, in the amount of US$250 million. In addition, the Group raised a total of US$67.2 million from DFIs in 2012. Consequently, as of 30 June 2013, the Group's liability structure included 62.3% of customer deposits, 9.3% Eurobonds, 13.6% of DFI funding and 2.8% of the other international borrowings. As a result of the effective liability management, the cost of funds of the Group was reduced to 6.3% in the first half of 2013, as compared to 7.6% in the first half of 2012. In 2012, 2011 and 2010, the Group's cost of funds was 7.1%, 7.7% and 8.0%, respectively. See note 3 to the table under "*Selected Consolidated Financial and Operating Information−Selected Financial Ratios*."

Currency Fluctuations

Although the Group seeks to minimise the effect of currency fluctuations, including through hedging, such fluctuations may affect the Group's results. In general, the Lari exchange rate, as compared to other foreign currencies remained relatively stable in the first half 2013, appreciating by 0.4% against US dollar between 31 December 2012 and 30 June 2013.

Business Combinations and Goodwill

The value of goodwill and any impairment charges associated with goodwill can have a significant impact on the Group's income statement.

The Group recognised a goodwill impairment charge of GEL 0.7 million (US$0.4 million) in connection with one of its non-core investments in 2012. As a result of the Belarusian Rouble depreciating against the Lari, in 2011 the Group impaired the full GEL 23.4 million of goodwill associated with BNB, the Group's non-core subsidiary in Belarus. As of 31 December 2012 and 30 June 2013, the Group's remaining carrying amount of goodwill was GEL 45.7 million and GEL 45.7 million, respectively.

There was no impairment of goodwill during the first half of 2013.

Overview of Acquisitions and Disposals

Acquisitions

The Group's significant acquisitions for the period from 1 January 2010 to 30 June 2013 are described below.

On 28 December 2011, the Bank announced that My Family Clinic, a subsidiary of the Bank's insurance subsidiary JSC Insurance Company Aldagi (or "**Aldagi**") (known as "Aldagi BCI" at the time of merger), had merged with the healthcare business of the Block Georgia group of companies. As a result of this non-cash transaction, as of the date of this Prospectus, ABCI retains a controlling equity interest of 51% in My Family Clinic, while Block Invest LLC, a member of the Block Georgia group of companies, holds the remaining 49%.

Between April and July 2012, the Bank's wholly owned insurance subsidiary, Aldagi (known as "Aldagi BCI" at the time of acquisition), acquired 100% of Imedi L, the third largest insurance and healthcare company in Georgia. Total assets of Imedi L at the time of acquisition comprised GEL 92.5 million, with net assets of GEL 36.0 million. The total consideration for the acquisition comprised of GEL 9.6 million in cash and GEL 26.9 million of pre-existing loan to Imedi L. As part of the transaction, the Bank made a capital injection of GEL 32.5 million into Aldagi to ensure that Imedi L has sufficient capital and liquidity to meet its existing hospital construction obligations and is sufficiently capitalised for its expected future growth.

Disposals

The Group's significant disposals for the period from 1 January 2010 to 30 June 2013 are described below.

In July 2010, the Bank sold 19.99% of its equity interest in BNB (its non-core subsidiary in Belarus) to the IFC for a total consideration of BYR 24.694 billion (US$8.2 million), or BYR 44.6 (US$0.0148) per share. The Bank also granted IFC a put option to sell its newly acquired 19.99% equity interest in BNB back to the

Bank at a price equal to the higher of: (i) the then current fair market value of the shares and (ii) the lower of (1) BYR 24.694 billion (US$8.2 million) and (2) double the book value of the shares. The put option is exercisable from 15 January 2015 until 1 January 2017.

In February 2011, the Group disposed of an 80.0% equity interest in BG Bank (its non-core subsidiary in Ukraine), to a number of Ukrainian individuals.

In order for the Group to focus on its strategic businesses, in February 2011 the Bank's subsidiary, BG Capital, exited from its brokerage operations in Ukraine, which the Group classified as non-core operations. In addition, the Group intends to exit from its other non-core operations, including through the sale of Liberty Consumer, its remaining equity interest in BG Bank and its interest in BNB.

Segment Information

For management purposes, the Group is organised into the following operating segments (more broadly classified into: Strategic, Synergistic and Non-Core) based on products and services.

Strategic

Retail Banking (excluding Retail Banking of BG Bank and BNB): Principally providing consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services, and handling customers' deposits for both individuals and legal entities, encompassing the mass affluent segment, retail mass markets, SME and micro businesses.

Corporate Banking (excluding Corporate Banking of BG Bank and BNB): Principally providing loans and other credit facilities to large VIPs as well as other legal entities larger than SME and micro entities, a finance lease facility provided by Georgian Leasing Company LLC ("**GLC**"), as well as funds transfers and settlement services, currency conversion operations, trade finance services and documentary operations support, and handling savings and term deposits for corporate and institutional customers.

Investment Management: Principally providing private banking services to resident and non-resident wealthy individuals as well as their direct family members by ensuring an individual approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or holding their savings and term deposits; investment management involves providing wealth and asset management services to the same individuals through different investment opportunities and specifically designed investment products. For management reporting purposes and to reflect the broadened scope of the Group's activities and product offerings, the Group has combined its advisory, brokerage, research and asset and wealth management activities in its investment management segment in the first half of 2013.

Corporate Centre: Back office services to all operating segments of the Bank and investments in subsidiaries.

Synergistic

Insurance & Healthcare: Providing life and non-life insurance products as well as integrated healthcare services to corporate clients and insured individuals. Aldagi cross-sells its insurance products with the Bank's retail banking, corporate banking and investment management products. Aldagi's healthcare business consists of My Family Clinic ("**MFC**") and Unimed, Georgia's leading healthcare providers in which Aldagi holds 51% and 100% stakes, respectively. MFC and Unimed operate a chain of healthcare centres in Georgia, in line with the Bank's strategy of vertically integrating its insurance and healthcare businesses.

Affordable Housing: Holding investment properties repossessed by the Bank from defaulted borrowers, managing such properties, developing and selling affordable residential apartments in conjunction with the provision of retail mortgages for the purchase of such apartments. The Group's affordable housing business is comprised of m2 Real Estate.

BG Capital: Providing brokerage, custody and corporate finance services, mostly for wealthy or mass affluent individuals, as well as to corporate customers. The Group exited its Ukrainian brokerage operations in February 2012.

Non-Core

BG Bank & BNB: BG Bank and BNB (in February 2011, the Group disposed of an 80% equity interest in BG Bank, its banking subsidiary in Ukraine, and the Group's equity interest in BG Bank was 19.35% as of 30 June 2013), principally providing retail and corporate banking services in Belarus and Ukraine. The Group plans to exit from its international operations (including its remaining equity interest in BG Bank and its interest in BNB) at an appropriate time.

Liberty Consumer: Private equity investments in several non-core business enterprises, including a winery, a fitness centre, travel agencies, an outdoor and indoor advertising company, a regional car dealership, a hotel and restaurant management chain, as well as other smaller investments, all designated for disposal.

Other: Joint Stock Company Galt & Taggart Holding Georgia, a shell company, principally holding investments in subsidiaries of the Bank on behalf of the Bank; and BG Capital (Belarus), LLC.

In 2010, the Group changed its estimates in respect of the allocation of indirect revenues and indirect expenses of the Bank (on a stand-alone basis) among the corporate banking, retail banking and investment management segments. These changes in allocation estimates had no impact on subsidiaries but resulted in the re-allocation of certain indirect revenues and indirect expenses in the Bank's stand-alone segment reporting, with no impact on the results of the segments.

The Group primarily operates in Georgia, with its Georgian operations generating 95.7% and 95.2% of the Group's revenue for the year ended 31 December 2012 and the six months ended 30 June 2013, respectively. As noted above, the Group exited from its brokerage operations in Ukraine in February 2011. For the six months ended 30 June 2013 and the years ended 31 December 2012, 2011 and 2010, the Group's Belarusian operations generated 4.8%, 4.3%, 11.6% and 4.0% of the Group's revenue. The proportion of revenue attributable to Belarus in 2011 was higher than anticipated as a result of a one-off foreign currency gain related to the devaluation of the Belarusian Rouble in 2011. For the years ended 31 December 2011 and 2010, the Group's former Ukrainian banking operations generated 0.2% (reflecting the disposal in February 2011) and 3.9%, respectively, of the Group's revenue.

Six Months Ended 30 June 2013 and 2012

The following table sets forth the revenue attributable to each of the Group's segments for the periods indicated.

	For the six months ended 30 June		
	2013		**2012**
		(unaudited)	
Strategic businesses:	*(thousands of US dollars)*[1]	*(thousands of Lari)*	*(thousands of Lari)*
Retail banking	76,382	126,107	117,855
Corporate banking	48,833	80,624	78,837
Investment management	3,415	5,638	7,200
Total strategic	**128,630**	**212,369**	**203,892**
Synergistic businesses:			
Insurance	11,693	19,305	10,547
Healthcare	6,130	10,121	9,893
Affordable housing	4,007	6,616	(430)
Brokerage (Georgia)	541	894	621
Total synergistic	**22,371**	**36,936**	**20,631**
Non-core businesses:			
Non-core: BNB	7,634	12,603	10,841
Non-core: Liberty Consumer	2,743	4,528	5,300
Non-core: Other	(646)	(1,066)	182
Total non-core	**9,731**	**16,065**	**16,323**
Intercompany elimination	(1,840)	(3,042)	(1,392)
Total	**158,892**	**262,328**	**239,454**

Note:
(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

Years Ended 31 December 2012, 2011 and 2010

The following table sets forth the revenue attributable to each of the Group's segments for the periods indicated.

	For the years ended 31 December			
	2012		2011	2010
	(audited)			
Strategic businesses:	*(thousands of US dollars)*[1]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Retail banking	148,626	246,273	210,896	169,226
Corporate banking	93,417	154,792	131,117	116,522
Investment management	8,402	13,922	7,368	4,321
Total strategic	**250,445**	**414,987**	**349,381**	**290,069**
Synergistic businesses:				
Insurance	19,684	32,617	17,991	15,748
Healthcare	13,551	22,454	5,017	3,518
Affordable housing	2,762	4,576	2,522	(1,956)
Brokerage (Georgia)	394	653	3,720	6,960
Total synergistic	**36,391**	**60,300**	**29,250**	**24,270**
Non-core businesses:				
Non-core: BNB	12,829	21,257	50,960	27,185
Non-core: Liberty Consumer	4,317	7,153	9,576	7,487
Non-core: Other	(337)	(559)	85	154
Total non-core	**16,809**	**27,851**	**60,621**	**34,826**
Intercompany elimination	(2,600)	(4,302)	(5,499)	(4,164)
Total	**301,045**	**498,836**	**433,753**	**345,001**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

Consolidated Income Statement

Six Months Ended 30 June 2013 and 2012

The following table sets out the principal components of the Group's consolidated net income for the periods indicated and the period-to-period changes.

	For the six months ended 30 June		
	2013		2012
		(unaudited)	
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*
Interest income	173,133	285,842	276,528
Interest expense	(81,867)	(135,163)	(137,812)
Net interest income before net losses from interest rate swaps	**91,266**	**150,679**	**138,716**
Net losses from interest rate swaps	(112)	(185)	(1,053)
Net interest income	**91,154**	**150,494**	**137,663**
Fee and commission income	33,251	54,898	51,477
Fee and commission expense	(7,597)	(12,543)	(9,485)
Net fee and commission income	**25,654**	**42,355**	**41,992**
Net insurance revenue	13,764	22,724	11,957
Net healthcare revenue	5,446	8,991	9,196
Net revenue from sale of goods	3,076	5,078	5,360
Other operating non-interest income	19,798	32,686	33,286
Revenue	**158,892**	**262,328**	**239,454**
Operating expenses	(65,215)	(107,670)	(108,429)
Operating income before cost of credit risk	**93,677**	**154,658**	**131,025**
Cost of credit risk	(21,963)	(36,261)	(13,947)
Net operating income	**71,714**	**118,397**	**117,078**
Impairment of property and equipment and intangible assets	–	–	(910)
Net non-operating expense	(3,303)	(5,453)	(11,483)
Profit before income tax expense	**68,411**	**112,944**	**104,685**
Income tax expense	(9,836)	(16,239)	(17,542)
Profit for the period	**58,575**	**96,705**	**87,143**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

Interest Income

Interest income principally comprises interest income on loans to customers, interest income on the Group's securities portfolio, interest income on amounts due from credit institutions and finance lease receivables.

The following table sets out the Group's interest income as of the periods indicated:

	For the six months ended 30 June		
	2013		2012
		(unaudited)	
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*
Interest income attributable to:			
Loans to customers	157,509	260,047	244,965
Finance lease receivables	1,943	3,208	4,133
Amounts due from credit institutions	2,995	4,945	9,624
Investment securities available-for-sale	10,686	17,642	17,806
Total interest income	**173,133**	**285,842**	**276,528**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

The following table sets out the amounts of the Group's interest-earning assets by type as of the dates indicated:

	As of 30 June 2013		As of 31 December 2012
	(unaudited)		*(audited)*
	(thousands of dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*
Interest-earning assets			
Cash and cash equivalents[2]	35,655	58,866	143,387
Amounts due from credit institutions[3]	197,781	326,537	396,559
Loans to customers, net	1,882,488	3,107,988	3,033,667
Finance lease receivables, net	16,494	27,232	71,686
Investment securities available-for-sale	387,004	638,944	458,017
Total interest-earning assets	**2,519,422**	**4,159,567**	**4,103,316**

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Includes only time deposits with credit institutions with a maturity of up to 90 days.

(3) Represents the Group's deposits with other banks, including central banks, with a maturity of more than 90 days.

Total interest income increased by GEL 9.3 million, or 3.4%, from GEL 276.5 million in the first half of 2012 to GEL 285.8 million (US$173.1 million) in the first half of 2013.

The increase in interest income in the first half of 2013, as compared to the first half of 2012, was primarily attributable to an increase in interest income from loans to customers by GEL 15.1 million, or 6.2%, from GEL 245.0 million to GEL 260.0 million.

Foreign currency-denominated loans to customers accounted for 66.9% and 67.0% of the total loans to customers as of 30 June 2013 and 2012, respectively.

Interest income from finance lease receivables, amounts due from credit institutions and investment securities decreased in the first half of 2013, by 22.4%, 48.6% and 0.9%, respectively, as compared to the first half of 2012, partially offsetting the increase in net interest income from loans to customers.

Interest income from finance lease receivables decreased by GEL 0.9 million, or 22.4%, to GEL 3.2 million (US$1.9 million) in the first half of 2013 from GEL 4.1 million in the first half of 2012. The decrease was principally due to a decrease in the portfolio size, which decreased by GEL 44.3 million, or 61.4%, in the first half of 2013.

Amounts due to credit institutions comprise inter-bank deposits (time deposits with an effective maturity of more than 90 days), short-term inter-bank loans (inter-bank loan receivable) and obligatory reserves with central banks. Interest income on amounts due from credit institutions decreased by GEL 4.7 million, or 48.6%, to GEL 4.9 million (US$3.0 million) in the first half of 2013 from GEL 9.6 million in the first half of 2012. The decrease was principally due to the decline in inter-bank deposit rates in line with the reduction of NBG's refinancing rates from 5.75% as of 30 June 2012 to 4.0% as of 30 June 2013, which were aimed at controlling inflationary pressures in Georgia.

Interest income from the Group's investment securities portfolio decreased as yields on Georgian government treasury bills and treasury bonds and NBG certificates of deposit continued to decline. Interest income on the Group's interest-earning investment securities (including available-for-sale interest-earning debt instruments only) decreased by GEL 0.2 million, or 0.9%, to GEL 17.6 million (US$10.7 million) in the first half of 2013 from GEL 17.8 million in the first half of 2012.

Interest Expense

Interest expense comprises interest expense on amounts due to customers and interest expense on amounts due to credit institutions.

The following table sets out the components of the Group's interest expense for the years indicated:

	For the six months ended 30 June		
	2013		2012
		(unaudited)	
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(thousands of Lari)*
Interest expense attributable to:			
Amounts due to customers	(51,809)	(85,538)	(103,765)
Amounts due to credit institutions	(30,058)	(49,625)	(34,047)
Total interest expense	**(81,867)**	**(135,163)**	**(137,812)**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

The following table sets out the amounts of the Group's interest-bearing liabilities as of the dates indicated:

	As of 30 June 2013		As of 31 December 2012
	(unaudited)		*(audited)*
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(thousands of Lari)*
Interest-bearing liabilities			
Amounts due to customers	1,727,906	2,852,772	2,693,025
Amounts due to credit institutions	893,813	1,475,686	1,657,162
Total interest-bearing liabilities	**2,621,719**	**4,328,458**	**4,350,187**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

Total interest expense decreased by GEL 2.6 million, or 1.9%, to GEL 135.2 million (US$81.9 million) in the first half of 2013 from GEL 137.8 million in the first half of 2012. The decrease was primarily driven by a decrease in interest expense on amounts due to customers by GEL 18.2 million, or 17.6%. The decline in interest expense on amounts due to customers was a result of the reduction in the average cost of customer deposits from 7.5% in the first half of 2012 to 6.2% in the first half of 2013, despite the inflow of customer deposits during the period. The decline in the average cost of customer deposits between the periods was driven by a number of interest rate cuts on customer deposits in 2012 and in the first half of 2013. Between the periods, contractual deposit rates at the end of each respective period decreased to 5.0% from 8.0% on US dollar denominated deposits and to 9.0% from 12.0% on Lari deposits. The growth in the Group's total amounts due to customers was primarily due to greater inflow of both retail banking and corporate banking customer deposits throughout 2012 and in the second quarter of 2013 in particular.

The average effective interest rate paid on the Bank's stand-alone customer account balances in Lari for the first half of 2013 and the first half of 2012 was 5.8% and 8.6%, respectively. The average effective interest rate paid on the Bank's stand-alone customer balances in foreign currencies (primarily US dollars) for the first half of 2013 and the first half of 2012 was 6.4% and 7.0%, respectively. Consolidated foreign currency denominated customer account balances as of 30 June 2013 and 2012 accounted for 68.9% and 65.4%, respectively, of the total consolidated balances of customer accounts.

Interest expense on amounts due to credit institutions increased by GEL 15.6 million, or 45.8% to GEL 49.6 million in the first half of 2013, as compared to GEL 34.0 million the first half of 2012. The increase, despite the lower cost of funds between the two periods and was mostly due to a 68.5% increase in the balance of amounts due to credit institutions, which, in turn, were largely a result of the issuance of the Existing Notes in July 2012. Cost of funds declined from 7.6% to 6.3% between the periods. The decrease in the balance of amounts due to credit institutions in the first half of 2013, as compared to 31 December 2012, was mostly due to the decrease in the cost of deposits between the periods.

Net (Loss) Gain from Derivative Financial Instruments

As of 30 June 2013, the Group's derivative financial instruments comprised interest rate swaps on borrowings from international credit institutions. Interest rate swaps on borrowings from international credit institutions are entered into in order to hedge the Group's exposure to floating-rate interest payments due to international credit institutions. In addition to interest rate swaps on borrowings and international credit institutions, in 2010, 2011 and 2012 the Group's financial instruments also comprised to a much lesser extent, call options on gold, oil and foreign currencies (US dollar and Euros), which are incorporated into structured products sold to the Group's clients. Call options were entered into in order to hedge the Group's exposure to interest payments due on clients' investment deposits linked to the prices of these commodities.

The Group had a loss of GEL 0.2 million (US$0.1 million) from its derivative financial instruments in the first half of 2013, as compared to a loss of GEL 1.1 million in the first half of 2012. In both cases, the losses were mostly caused by changes in the fair valuation of the Bank's interest rate swaps to hedge its floating rate borrowings.

Net Interest Income

Net interest income increased by GEL 12.8 million, or 9.3%, to GEL 150.5 million (US$91.2 million) in the first half of 2013 from GEL 137.7 million in the first half of 2012. The increase between the periods was principally due to a GEL 9.3 million, or 3.4%, increase in interest income which was only partially offset by a GEL 2.6 million, or 1.9%, decrease in interest expense.

The Group's net interest margin is defined as net interest income divided by average interest-earning assets for the year or period, as the case may be. Average interest-earning assets are defined as the average of interest-earning assets at the beginning and the end of the relevant year or period. Interest-earning assets include time deposits with credit institutions with effective maturities of up to 90 days, amounts due from credit institutions, loans to customers (net), finance lease receivables (net) and investment securities (debt securities only).

The Group's net interest margin was 7.3% and 7.7% in the first half of 2013 and the first half of 2012, respectively. The Group's consolidated currency-blended loan yield was 16.5% and 17.5% in the first half of 2013 and the first half of 2012, while the Group's consolidated cost of funds was 6.3% and 7.6% in the first half of 2013 and the first half of 2012, respectively.

Net Fee and Commission Income

Net fee and commission income comprises (i) fee and commission income from settlement operations (including wire transfers, credit card processing and other current accounts-related services), guarantees and letters of credit, cash operations, brokerage service fees, currency conversion operations, advisory and other fee and commission income less (ii) fee and commission expense from insurance brokerage services, settlement operations, guarantees and letters of credit, cash operations, currency conversion operations and other fee and commission expenses.

The following table shows the principal components of the Group's net fee and commission income for the periods indicated:

	For the six months ended 30 June		
	2013		2012
		(unaudited)	
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(thousands of Lari)*
Settlement operations	21,401	35,333	32,139
Guarantees and letters of credit	7,627	12,592	13,172
Cash operations	2,435	4,020	4,319
Currency conversion operations	734	1,212	719
Brokerage service fee	288	475	404
Advisory	160	264	-
Other	607	1,002	724
Fee and commission income	**33,252**	**54,898**	**51,477**
Settlement operations	(5,269)	(8,699)	(6,977)
Guarantees and letters of credit	(1,141)	(1,883)	(1,533)
Cash operations	(412)	(681)	(298)
Insurance brokerage service fees	(301)	(497)	(206)
Currency conversion operations	(21)	(34)	(42)
Other	(454)	(749)	(429)
Fee and commission expense	**(7,598)**	**(12,543)**	**(9,485)**
Net fee and commission income	**25,654**	**42,355**	**41,992**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

Net fee and commission income increased by GEL 0.4 million, or 0.9%, to GEL 42.4 million (US$25.7 million) in the first half of 2013 from GEL 42.0 million in the first half of 2012. The increase was driven primarily by the increase in settlement operations as a result of the expansion of the Bank's Express Banking operations, through which the Bank delivers self-service transactional and remote banking services.

Fee and commission expense increased by GEL 3.1 million, or 32.2%, to GEL 12.5 million (US$7.6 million) in the first half of 2013 from GEL 9.5 million in the first half of 2012. The increase was primarily due to a number of initiatives intended to attract new clients to expand the Bank's Express Banking business.

Net Insurance Revenue

Net insurance revenue comprises net insurance premiums earned, net of reinsurance, from clients of the Group's subsidiary, Aldagi, less net insurance claims incurred by Aldagi, net of reinsurance, principally comprised of non-life insurance contracts (health and general insurance contracts).

The following table sets forth the principal components of the Group's net insurance revenue for the periods indicated:

	For the six months ended 30 June		
	2013		2012
		(unaudited)	
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(thousands of Lari)*
Net insurance premiums earned	38,939	64,289	32,383
Net insurance claims incurred	(25,175)	(41,565)	(20,426)
Net insurance revenue	**13,764**	**22,724**	**11,957**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

Net insurance revenue increased by GEL 10.8 million, or 90.0%, to GEL 22.7 million (US$13.8 million) in the first half of 2013, as compared to GEL 12.0 million in the first half of 2012, principally reflecting the growth of business and the targeted increased concentration of claims expenditure within the Group as a result of the vertical integration of the insurance and healthcare businesses under Aldagi. While intra-group claims represent an expense for the insurance business, such claims also contribute revenue to the healthcare business, on a standalone basis. Net insurance premiums earned increased by GEL 31.9 million, or 98.5%, to GEL 64.3 million (US$38.9 million) in the first half of 2013 from GEL 32.4 million in the first half of 2012, while net insurance claims incurred increased by GEL 21.1 million, or 103.5%, to GEL 41.6 million (US$25.2 million) in the first half of 2013 from GEL 20.4 million in the first half of 2012, reflecting increased intra-group claims due to the growth of the Group's healthcare business. During the six months ended 30 June 2013, total intra-group claims transactions between the Group's insurance and healthcare businesses amounted to GEL 6.5 million, as compared to GEL 2.3 million during the same period in 2012, which is in line with the Group's strategy of increasing concentration of the claims expenditure within the Group.

Net Healthcare Revenue

Net healthcare revenue comprises healthcare revenue from clients of the Group's healthcare subsidiaries, less cost of healthcare services incurred by these subsidiaries.

The following table sets forth the principal components of the Group's net healthcare revenue for the periods indicated:

	For the six months ended 30 June		
	2013		2012
	(thousands of US dollars)[1]	*(unaudited) (thousands of Lari)*	*(thousands of Lari)*
Healthcare revenue	16,650	27,489	22,587
Cost of healthcare services	(11,204)	(18,498)	(13,391)
Net healthcare revenue	**5,446**	**8,991**	**9,196**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

Healthcare revenue increased by GEL 4.9 million, or 21.7%, to GEL 27.5 million (US$16.7 million) in the first half of 2013 from GEL 22.6 million in the first half of 2012, principally due to the growth of business through both organic growth and through mergers and acquisitions. See "*—Overview of Acquisitions and Disposals*".

Cost of healthcare services increased by GEL 5.1 million, or 38.1%, to GEL 18.5 million (US$11.2 million) in the first half of 2013 from GEL 13.4 million in the first half of 2012, mostly due to growth of business as discussed above.

Other Operating Non-Interest Income

The Group's other operating non-interest income comprises net gains from trading securities and investment securities available-for-sale, net gains (losses) from revaluation of investment properties, net gains from foreign currencies and other operating income.

The following table sets out certain information on the Group's other operating non-interest income for the years indicated:

	For the six months ended 30 June		
	2013		2012
	(thousands of US dollars)[1]	*(unaudited)* *(thousands of Lari)*	*(thousands of Lari)*
Net gains from trading securities and investment securities available-for-sale	1,569	2,590	953
Net gains from revaluation of investment properties	2,933	4,842	-
Net gains from foreign currencies:			
- dealing	12,801	21,134	17,187
- translation differences	70	116	9,014
Other operating income	2,425	4,004	6,132
Other operating non-interest income	**19,798**	**32,686**	**33,286**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

The Group's other operating non-interest income decreased by GEL 0.6 million, or 1.8%, to GEL 32.7 million (US$19.8 million) in the first half of 2013 from GEL 33.3 million in the first half of 2012, partially as a result of a decline in net gains from foreign currencies due to the absence of one-off currency gains in 2013, as compared to a one-off currency gain of GEL 2.9 million on Belarusian Rouble in the first half of 2012.

As of 30 June 2013, and 31 December 2010, 2011 and 2012, the Group's trading securities portfolio comprised equity and debt securities of different Georgian and Ukrainian corporate issuers, held by BG Capital. The Group's available-for-sale investment securities comprise interest-earning debt securities such as NBG certificates of deposit, government treasury bills and treasury bonds, shares of corporate issuers including BGH shares (through the Bank of Georgia trust and brokerage accounts) for employment compensation purposes. The Group's net gains from trading securities and investment securities available-for-sale increased by GEL 1.6 million, or 171.8%, to a gain of GEL 2.6 million (US$1.6 million) in the first half of 2013 from GEL 1.0 million in the first half of 2012.

Net gains from revaluation of investment property in the amount of GEL 4.8 million (US$2.9 million) in the first half 2013, was due to the revaluation of investment property earmarked for two real estate development projects to be commenced by m2 Real Estate, the Bank's real estate subsidiary.

Net gains from foreign currency dealing operations comprise (i) currency conversion commission income from the Group's customers and (ii) net foreign currency gains from the Group's spot currency deals. Net gains from foreign currencies (including dealing and translation differences) decreased by GEL 5.0 million, or 18.9%, to GEL 21.3 million (US$12.9 million) in the first half of 2013 from GEL 26.2 million in the first half of 2012, due to a one-off currency gain of GEL 2.9 million on Belarusian Rouble in the first half of 2012. Excluding the one-off currency gain on the Belarusian Rouble, net gains from foreign currencies decreased by GEL 2.0 million, or 8.6%, largely as a result of the increase in the volume of the Group's foreign currency transactions, which was, in turn, primarily caused by the improved macroeconomic and business environment in Georgia during the period.

Other operating income comprises other banking operations (such as commissions from cash collection services, credit card data processing, gains from disposal of repossessed assets), other operating income of Aldagi, revenue of m2 Real Estate and revenues of non-core subsidiaries held by Liberty Consumer. Other operating income decreased by GEL 2.1 million, or 34.7%, to GEL 4.0 million (US$2.4 million) in the first half of 2013 from GEL 6.1 million in the first half of 2012.

Revenue

As a result of the foregoing, the Group's revenue increased by GEL 22.9 million, or 9.6%, to GEL 262.3 million (US$158.9 million) in the first half of 2013 from GEL 239.5 million in the first half of 2012.

Other Operating Non-Interest Expenses

Other operating non-interest expenses comprise salaries and other employee benefits, general and administrative expenses, depreciation and amortisation and other operating expenses.

The following table shows the composition of the Group's other operating non-interest expenses for the periods indicated:

	For the six months ended 30 June		
	2013		2012
		(unaudited)	
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*
Salaries and other employee benefits	(39,024)	(64,429)	(57,329)
General and administrative expenses	(17,239)	(28,461)	(33,627)
Depreciation and amortisation	(8,079)	(13,339)	(13,919)
Other operating expenses	(873)	(1,441)	(3,554)
Operating expense	**(65,215)**	**(107,670)**	**(108,429)**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

Other operating non-interest expenses decreased by GEL 0.8 million, or 0.7%, to GEL 107.7 million (US$65.2 million) in the first half of 2012 from GEL 108.4 million in the first half of 2012, principally due to the GEL 5.2 million, or 15.4%, decrease in general and administrative expenses and the GEL 2.1 million, or 59.5%, decrease in other operating expenses.

Salaries and other employee benefits include salaries and bonuses as well as social security costs. Salaries and other employee benefits increased by GEL 7.1 million, or 12.4%, to GEL 64.4 million (US$39.0 million) in the first half of 2013 from GEL 57.3 million in the first half of 2012, primarily due to an increase in headcount to support the growth in the Group's business.

General and administrative expenses include expenses for marketing and advertising, occupancy and rent, repairs and maintenance, legal and other professional services, operating taxes, communications, office supplies, business trips, security, corporate hospitality and entertainment, banking services, penalties, personnel training and recruitment, insurance expenses and other administrative expenses. General and administrative expenses decreased by GEL 5.2 million, or 15.4%, to GEL 28.5 million (US$17.2 million) in the first half of 2013 from GEL 33.6 million in the first half of 2012, largely reflecting the impact of cost containment initiatives across the Group and, in particular, efficiency gains from the Group's Express Banking strategy. The Bank opened 13 new cost-efficient Express Banking branches between 30 June 2012 and 30 June 2013, bringing the total number of branches to 197 branches in Georgia as of 30 June 2013.

Depreciation and amortisation decreased by GEL 0.6 million, or 4.2%, to GEL 13.3 million (US$8.1 million) in the first half of 2013 from GEL 13.9 million in the first half of 2012.

Other operating expenses comprise other operating expenses of the Bank, Aldagi and non-core subsidiaries of the Group held by Liberty Consumer. Other operating expenses decreased by GEL 2.1 million, or 59.5%, to GEL 1.4 million (US$0.9 million) in the first half of 2013 from GEL 3.6 million in the first half of 2012.

Operating Income Before Cost of Credit Risk

As a result of the foregoing factors, the Group's operating income before cost of credit risk increased by GEL 23.6 million, or 18.0%, to GEL 154.7 million (US$93.7 million) in the first half of 2013 from GEL 131.0 million in the first half of 2012.

Cost of Credit Risk

The Group's cost of credit risk is comprised of impairment charge on loans to customers, finance lease receivables, and other assets and provisions, such as insurance premiums receivable, guarantees and other debtors. The following table shows the composition of the Group's cost of credit risk for the periods indicated:

	For the six months ended 30 June		
	2013		**2012**
		(unaudited)	
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(thousands of Lari)*
Impairment charge on loans to customers	(12,278)	(20,271)	(13,001)
Impairment charge finance lease receivables	(1,638)	(2,704)	(241)
Impairment charge on other assets and provisions	(8,047)	(13,286)	(705)
Cost of credit risk	**(21,963)**	**(36,261)**	**(13,947)**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

Cost of credit risk increased by GEL 22.3 million, or 160.0%, to GEL 36.3 million (US$22.0 million) in the first half of 2013 from GEL 13.9 million in the first half of 2012, due to the growth of the Group's loan book between the periods and increased impairment charges mostly associated with a single corporate client. The cost of risk (that is the ratio of impairment charges on loans to average gross loans to customers) was 1.3% and 0.9% during the first half of 2013 and the first half of 2012, respectively. The ratio of allowance for loan impairment to gross loans was 3.6% as of 30 June 2013, as compared to 3.5% as of 31 December 2012 and 3.9% as of 30 June 2012.

Impairment charge on loans to customers comprises charges for the allowances for impairment of loans made to retail and corporate banking customers. Impairment charge on loans to customers increased by GEL 7.3 million, or 55.9%, to GEL 20.3 million (US$12.3 million) in the first half of 2013 from GEL 13.0 million in the first half of 2012, due to increased provisions in both the retail and corporate segments, as well as an absence of or decreased recoveries in retail.

Impairment charge on finance lease receivables relates to several corporate clients mainly in the transport sector.

Impairment charge on other assets and provisions comprises provisions for guarantees, impairment of investments in associates and other assets (essentially non-loan and non-lease receivables) net of reversals of such impairment charges. Impairment charge on other assets and provisions increased by GEL 12.6 million, or 1784.5%, to GEL 13.3 million (US$8.0 million) in the first half of 2013 from GEL 0.7 million in the first half of 2012.

Net Operating Income

As a result of the foregoing, the Group had net operating income of GEL 118.4 million (US$71.7 million) in the first half of 2013, as compared to a net operating income of GEL 117.1 million in the first half of 2012.

Impairment of Property and Equipment and Intangible Assets

Impairment of property and equipment comprises impairment charges associated with property and equipment. The Group had no impairment charge on property and equipment and intangible assets in the first half of 2013, as compared to an impairment charge of GEL 0.9 million in the first half of 2012.

Net Non-Operating (Expense) Income

The following table shows the composition of the Group's other non-operating income (expense) for the periods indicated:

	For the six months ended 30 June		
	2013		2012
		(unaudited)	
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*
Share of profit of associates	-	-	(146)
Loss from hyperinflation	(479)	(790)	(211)
Net other non-operating expenses	(2,824)	(4,663)	(11,126)
Net non-operating expense	**(3,303)**	**(5,453)**	**(11,483)**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

The Group's net non-operating expense decreased to GEL 5.5 million (US$3.3 million), or 52.5%, in the first six months of 2013 from GEL 11.5 million in the first half of 2012, mostly due to the 58.1% decrease of net other non-operating expenses between the two periods. In the first half of 2013, net other non-operating expenses mostly comprised GEL 2.4 million impairment of investment in a non-core associate held by Liberty Consumer, and GEL 1.5 million of charity, donations and one-off legal advice costs incurred by the Bank, while the decrease compared to the respective period in 2012, largely reflected the one-time cost, associated with the Premium Listing and that largely made up net other non-operating expenses in the first half of 2012.

Profit Before Income Tax Expense From Continuing Operations

As a result of the foregoing, the Group had profit before income tax expense of GEL 112.9 million (US$68.4 million) in the first half of 2013, as compared to profit before income tax expense of GEL 104.7 million in the first half of 2012.

Income Tax Expense

The Group had income tax expense of GEL 16.2 million (US$9.8 million) in the first half of 2013, as compared to GEL 17.5 million in the first half of 2012.

Profit for the Period

The Group generated a net profit for the period of GEL 96.7 million (US$58.6 million) for the first half of 2013, as compared to GEL 87.1 million for the first half of 2012.

Years Ended 31 December 2012, 2011 and 2010

The following table sets out the principal components of the Group's consolidated net income for the periods indicated and the period-to-period changes.

	For the years ended 31 December					
	2012		**2011**		**2010**	
			(audited)			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*
Interest income	342,669	567,803	13.3%	501,358	18.5%	423,141
Interest expense	(170,173)	(281,976)	5.6%	(267,057)	29.1%	(206,797)
Net interest income before net (losses) gains from interest rate swaps	172,496	285,827	22.0%	234,301	8.3%	216,344
Net (losses) gains from interest rate swaps	(1,032)	(1,710)	(134.3)%	4,984	(163.7)%	(7,826)
Net interest income	171,464	284,117	18.7%	239,285	14.8%	208,518
Fee and commission income	65,949	109,278	16.8%	93,541	26.0%	74,265
Fee and commission expense	(13,404)	(22,210)	22.0%	(18,204)	67.9%	(10,845)
Net fee and commission income	52,545	87,068	15.6%	75,337	18.8%	63,420
Net insurance revenue	20,602	34,138	92.5%	17,738	6.5%	16,663
Net healthcare revenue	14,089	23,346	849.8%	2,458	326.7%	576
Net revenue from sale of goods	6,436	10,665	2.9%	10,361	13.9%	9,094
Other operating non-interest income	35,909	59,502	(32.8)%	88,574	89.5%	46,730
Revenue	301,045	498,836	15.0%	433,753	25.7%	345,001
Operating expenses	(131,889)	(218,540)	4.0%	(210,165)	6.1%	(198,135)
Operating income before cost of credit risk	169,156	280,296	25.4%	223,588	52.2%	146,866
Cost of credit risk	(26,987)	(44,717)	101.5%	(22,196)	(53.5)%	(47,698)
Net operating income (loss)	142,169	235,579	17.0%	201,392	103.1%	99,168
Impairment of goodwill, intangible assets and property and equipment	(576)	(954)	(95.9)%	(23,394)	5277.9%	(435)
Net non-operating (expense) income	(11,273)	(18,680)	214.3%	(5,944)	1949.7%	(290)
Profit (loss) before income tax (expense) benefit from continuing operations	130,320	215,945	25.5%	172,054	74.8%	98,443
Income tax (expense) benefit	(20,036)	(33,200)	57.2%	(21,125)	33.9%	(15,776)
Profit (loss) for the period from continuing operations	110,284	182,745	21.1%	150,929	82.6%	82,667
Net loss from discontinued operations	–	–	(100.0)%	(15,219)	–	–
Profit (loss) for the period	110,284	182,745	34.7%	135,710	64.2%	82,667

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

Interest Income

The following table sets out the Group's interest income for the periods indicated:

	For the years ended 31 December			
	2012		2011	2010
	(audited)			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Interest income attributable to:				
Loans to customers	307,386	509,339	438,989	389,402
Finance lease receivables	5,251	8,701	6,565	4,159
Amounts due from credit institutions	9,543	15,813	18,103	9,795
Investment securities:				
- held-to-maturity	—	—	—	12,498
- available-for-sale	20,489	33,950	37,701	7,287
Total interest income	**342,669**	**567,803**	**501,358**	**423,141**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

The following table sets out the amounts of the Group's interest-earning assets by type as of the dates indicated:

	As of 31 December			
	2012		2011	2010
	(audited)			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Interest-earning assets				
Cash and cash equivalents[2]	86,534	143,387	105,990	229,587
Amounts due from credit institutions[3]	239,323	396,559	289,530	116,469
Loans to customers, net	1,830,819	3,033,667	2,553,442	2,351,697
Finance lease receivables, net	43,263	71,686	62,919	14,419
Investment securities:				
- held-to-maturity	—	—	—	21
- available-for-sale	276,413	458,017	408,075	285,628
Total interest-earning assets	**2,476,352**	**4,103,316**	**3,419,956**	**2,997,821**

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

(2) Includes only time deposits with credit institutions with a maturity of up to 90 days.

(3) Represents the Group's deposits with other banks, including central banks, with a maturity of more than 90 days.

Total interest income increased by GEL 66.4 million, or 13.3%, from GEL 501.4 million in 2011 to GEL 567.8 million (US$342.7 million) in 2012, having increased by GEL 78.2 million, or 18.5%, from GEL 423.1 million in 2010.

The increase in interest income from 2011 to 2012 was primarily attributable to GEL 70.4, or 16.0% increase in interest income from loans to customers to GEL 509.3 million (US$307.4 million) from GEL 439.0 million. The increase was driven by the increase in the size of the Group's loans to customers, largely stable loan yields and the 6.1% growth of the Georgian economy in 2012. The Group's loans to customers increased by GEL 475.6 million, or 17.8%, to GEL 3,143.7 million (US$1,897.2 million) in 2012, while currency-blended loan yield in 2012 was 17.5%, as compared to 16.9% in 2011. Average gross loans to customers (based on quarterly averages between 2011 and 2012) grew by 15.8%. The increase in interest income from 2010 to 2011 was primarily attributable to an increase in interest income from loans to customers, which, in turn, was due to the growth of the Group's loan portfolio (notwithstanding the disposal of BG Bank) as a result of a 7.2% growth in the Georgian economy in 2011. In particular, interest income from loans to customers increased by 12.7% to GEL 439.0 million in 2011 from GEL 389.4 million in 2010, primarily due to growth of the Group's net loans to customers by 8.6% to GEL 2,553.4 million as of 31 December 2011 from GEL 2,351.7 million as of 31

December 2010. Average gross loans to customers (based on quarterly averages) between 2010 and 2011 grew by 18.8%. Growth of interest income from loans to customers was also affected by an increase in the share of higher yielding Lari-denominated gross loans in total gross loans, from 23.0% in 2010 to 32.0% in 2011. However, the Group's overall consolidated currency-blended loan yield declined from 17.9% in 2010 to 16.9% in 2011, primarily because the average effective interest rates on the Bank's stand-alone loans to customers (both in Lari and foreign currencies) declined between the two periods. The effect of the increase in the Group's consolidated average loan portfolio (based on quarterly averages) exceeded the effect of the decrease in the Group's consolidated currency-blended loan yield, resulting in an increased interest income on loans to customers.

The average effective interest rates on the Bank's stand-alone gross loans to customers were 24.1%, 23.8% and 24.1% for Lari loans, and 13.9% 14.9% and 17.5% for foreign currency loans, in 2012, 2011 and 2010, respectively. The consolidated currency-blended loan yields of the Group were 17.5%, 16.9% and 17.9% in 2012, 2011 and 2010, respectively.

Foreign currency-denominated loans to customers accounted for 68.1%, 68.0% and 77.0% of the total loans to customers as of 31 December 2012, 2011 and 2010, respectively.

Interest income from finance lease receivables increased by GEL 2.1 million, or 32.5%, to GEL 8.7 million (US$5.3 million) in 2012, from GEL 6.6 million in 2011, after having increased in 2011 by 57.9% from GEL 4.2 million in 2010. The increase in interest income on finance lease receivables from 2011 to 2012 was principally due to growth in GLC's business during 2012. The increase in interest income on finance lease receivables from 2010 to 2011 was principally due to the GEL 48.4 million, or 322.2%, growth in the Group's gross finance lease receivables, from GEL 15.0 million as of 31 December 2010 to GEL 63.4 million as of 31 December 2011.

Interest income on amounts due from credit institutions decreased by GEL 2.3 million, or 12.6%, to GEL 15.8 million (US$9.5 million) in 2012, from GEL 18.1 million in 2011, after having increased in 2011 by 84.8% from GEL 9.8 million in 2010. The decrease in interest income on amounts due from credit institutions in 2012 compared to 2011 was principally due to the increases in the average balances of obligatory reserves at central banks, reflecting the increase in borrowed funds during the period, as well as the increases in average balances of time deposits with a maturity of more than 90 days and average volumes of inter-bank loans placed at banks. Overall, amounts due from credit institutions grew to GEL 396.6 million (US$239.3 million) as of 31 December 2012 from GEL 289.5 million as of 31 December 2011. The growth of interest income on amounts due from credit institutions from 2010 to 2011 was principally due to a 148.6% increase in amounts due from credit institutions, to GEL 289.5 million as of 31 December 2011 from GEL 116.5 million as of 31 December 2010. The quarterly average balances of interest-earning amounts due from credit institutions between 2010 and 2011 also grew significantly, by 42.6%, primarily due to the growth of customer deposit activity. An increase in average effective interest rates for the Bank's stand-alone Lari denominated inter-bank deposits, from 7.4% in 2010 to 14.4% in 2011, also contributed to the growth of interest income.

The Group's interest-earning investment securities comprise Ministry of Finance treasury bills, certificates of deposits of central banks, Georgian government bonds and corporate bonds. Interest income on the Group's interest-earning investment securities (including held-to-maturity or available-for-sale interest-earning debt instruments only) increased by 90.6% to GEL 37.7 million in 2011, from GEL 19.8 million in 2010. The Group's interest-earning investment securities increased by 12.2% to GEL 458.0 million (US$276.4 million) as of 31 December 2012, having increased by 42.9% to GEL 408.1 million as of 31 December 2011 from GEL 285.6 million as of 31 December 2010, primarily due to a higher customer deposit growth rate compared to the lending rate during the period, which, in turn, led the Group to invest its excess liquidity into shorter-term, highly liquid interest-earning assets. Annual fluctuations in interest income on investment securities are mainly attributable to fluctuations in the average effective interest rates, the composition of the securities portfolio and the amount of debt securities held. Despite the increase of the Bank's investment securities portfolio as the Bank increased its investment in NBG certificates of deposit, the decrease in interest income on the Group's investment securities between 2011 and 2012 by 9.9% to GEL 34.0 million from GEL 37.7 million was primarily attributed to the decline in interest rates due to the deflationary pressures in Georgia. The increase in interest income on the Group's investment securities between 2010 and 2011 was principally due to the growth of the Group's interest-earning investment securities portfolio by GEL 122.4 million, or 42.9%, to GEL 408.1 million as of 31 December 2011 from GEL 285.6 million as of 31 December 2010. The average number of interest-earning investment securities (based on quarterly averages) between 2010 and 2011 grew by

32.4%. The Bank's stand-alone average effective interest rates of investment securities increased from 8.0% in 2010 to 10.4% in 2011, which also contributed to the growth of interest income in 2011.

Interest Expense

Interest expense comprises interest expense on amounts due to customers and interest expense on amounts due to credit institutions.

The following table sets out the components of the Group's interest expense for the years indicated:

	For the years ended 31 December			
	2012		2011	2010
	(audited)			
	(thousands of US dollars)[1]	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*
Interest expense attributable to:				
Amounts due to customers	(122,200)	(202,484)	(167,294)	(114,968)
Amounts due to credit institutions	(47,973)	(79,492)	(99,763)	(91,829)
Total interest expense	**(170,173)**	**(281,976)**	**(267,057)**	**(206,797)**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

The following table sets out the amounts of the Group's interest-bearing liabilities as of the dates indicated:

	As of 31 December			
	2012		2011	2010
	(audited)			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Interest-bearing liabilities				
Amounts due to customers	1,625,241	2,693,025	2,735,222	2,026,308
Amounts due to credit institutions	1,000,098	1,657,162	921,172	1,138,927
Total interest-bearing liabilities	**2,625,339**	**4,350,187**	**3,656,394**	**3,165,235**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

Total interest expense increased by 5.6% to GEL 282.0 million (US$170.2 million) in 2012 from GEL 267.1 million in 2011, having increased by 29.1% from GEL 206.8 million in 2010. The increase in total interest expense between 2011 and 2012 was largely due to a GEL 35.2 million, or 21.0%, increase in interest expense on amounts due to customers, which more than offset the 20.3% decrease in interest expense on amounts due to credit institutions to GEL 79.5 million (US$48.0 million) from GEL 99.8 million in 2011. The increase in total interest expense between 2010 and 2011 was primarily attributable to the increase in interest expense on amounts due to customers, in line with the growth of amounts due to customers during the periods. Interest expense on amounts due to customers increased by 21.0% to GEL 202.5 million (US$122.2 million) in 2012, from GEL 167.3 million in 2011, having increased by 45.5% from GEL 115.0 million in 2010.

The increase in interest expense on amounts due to customers from 2011 to 2012 was principally due to the continuing increase in customer deposits, particularly during the first half of 2012 and the resulting 20.3% increase of average amounts due to customers during the periods. While the Bank reduced interest rates on customer deposits of different maturities in the beginning of 2012, initially targeting more costly GEL denominated corporate banking customer deposits, the effect of such customer deposit rate reductions was not translated into a decrease in interest expense on amounts due to customers until the second half of 2012. Such reductions in interest rates also resulted in the outflow of deposits in the fourth quarter of 2012, as reflected in the decline of amounts due to customers to GEL 2,693.0 million (US$1,625.2 million) as of 31 December 2012 from GEL 2,735.2 million as of 31 December 2011.

The increase in interest expense on amounts due to customers from 2010 to 2011 was principally due to growth of the Group's total amounts due to customers by 35.0%, to GEL 2,735.2 million in 2011 from GEL 2,026.3 million in 2010. The growth in the Group's total amounts due to customers was primarily due to significant improvement of the operating and business environment in Georgia and decline of the unemployment rate.

In the fourth quarter of 2011, the Bank experienced a significant increase in customer deposits, primarily Lari-denominated deposits and deposits from corporate customers, which the Bank attributes to its reduction in interest rates. The Group's consolidated amounts due to customers increased by GEL 370.1 million, or 15.9%, between 30 September 2011 and 31 December 2012, which, in turn, increased excess liquidity, especially in Lari.

Average amounts due to customers (based on quarterly averages) between 2010 and 2011 grew by 45.5%. The growth in the interest expense on amounts due to customers was also affected by an increase in the portion of more costly Lari-denominated amounts due to customers in the total amounts due to customers, from 27.9% in 2010 to 37.7% in 2011.

The average effective interest rates paid on the Bank's stand-alone customer account balances in Lari for 2012, 2011 and 2010 were 7.7%, 8.3% and 6.3%, respectively. The average effective interest rates paid on the Bank's stand-alone customer balances in foreign currencies (mainly US dollars) for 2012, 2011 and 2010 were 6.9%, 7.5% and 7.9%, respectively. The Group's currency-blended customer deposit costs were 7.5%, 7.0% and 7.0% for 2012, 2011 and 2010, respectively. The relative stability of the cost of currency-blended customer deposits for 2011, as compared to the cost of Lari-denominated deposits for such year, primarily reflected the increase in Lari-denominated customer deposits in the fourth quarter of 2011. Although foreign currency denominated customer deposits increased throughout 2011, the average effective interest rates paid on the Bank's stand-alone foreign currency denominated customer deposits decreased in such period as a result of the disposal of the Bank's interests in BG Bank in February 2011, which decreased the Group's exposure to comparatively costly Hryvna-denominated foreign currency customer deposits. Consolidated foreign currency denominated customer account balances at 31 December 2012, 2011 and 2010 accounted for 68.9%, 62.3% and 72.1%, respectively, of the total consolidated balances of customer accounts.

Interest expense on amounts due to credit institutions decreased by 20.3% to GEL 79.5 million (US$48.0 million) in 2012 from GEL 99.8 million in 2011, having increased by 8.6% from GEL 91.8 million in 2010. The decrease in interest expense on amounts due to credit institutions from 2011 to 2012 was principally due to the decline in the cost of funds as a result of targeted liability management in 2012. Aimed at the reduction of cost of funds, such liability management included the repayment of the outstanding 2007 Eurobond at maturity in February 2012 and repayment of costly borrowings following the issuance of the Existing Notes, the Group's second U.S. dollar-denominated Eurobond, in July 2012. As a result, the Group's cost of funds declined to 7.1% in 2012 from 7.7% in 2011, despite the increase in the amounts due to credit institutions to GEL 1,657.2 million (US$1,000.1 million) as of 31 December 2012 from GEL 921.2 million as of 31 December 2011, mostly due to the issuance of the Existing Notes. The increase in interest expense on amounts due to credit institutions from 2010 to 2011 was principally due to an increase in effective interest rates, from 8.6% in 2010 to 9.4% in 2011. See "*Selected Statistical and Other Information*". The increase in the effective interest rates was primarily due an increase in US dollar LIBOR (for US dollar floating rate borrowings) as well as the increased demand for Lari-denominated inter-bank funding in the market during 2011. The growth was partially mitigated as the amounts due to credit institutions in 2011 declined by 19.1%, as compared to 2010, and the average balance of amounts due to credit institutions (based on quarterly averages) during 2011 remained comparatively flat, as compared to 2010, declining by only 0.2%.

Net Gains (Losses) from Derivative Financial Instruments

The Group had a net loss of GEL 1.7 million (US$1.0 million) from its derivative financial instruments in 2012, principally due to the change in the fair value of the interest rate swap agreement with IFC. The Group had a net gain of GEL 5.0 million from its derivative financial instruments in 2011, principally due to the devaluation of the fair value of the interest rate swap agreement with IFC, which, in turn, was caused by an increase in market rates in 2011 compared to the fixed levels against which the Bank hedged its floating interest rates (as described above). The Group had a loss of GEL 7.8 million from its derivative financial instruments in 2010, following a decrease in market interest rates compared to the same fixed levels.

Net Interest Income

Net interest income increased by 18.7% to GEL 284.1 million (US$171.5 million) in 2012 from GEL 239.3 million in 2011, having increased by 14.8% from GEL 208.5 million in 2010. The increase from 2011 to 2012 was principally due to a GEL 66.4 million, or 13.3%, increase in interest income, which more than offset the GEL 14.9 million, or 5.6%, increase in interest expense. The increase from 2010 to 2011 was principally due to the increase in total interest income by GEL 78.2 million, or 18.5%, which more than offset the GEL 60.3 million, or 29.1%, increase in interest expense in 2011.

The Group's net interest margin was 7.6%, 7.5% and 8.1% in 2012, 2011 and 2010, respectively. The Group's consolidated currency-blended loan yield declined from 17.9% in 2010 to 16.9% in 2011 and increased to 17.5% in 2012, while the Group's consolidated cost of funds declined by 0.3%, from 8.0% in 2010 to 7.7% in 2011, and declined to 7.1% in 2012.

The increase in net interest margin in 2012 was primarily due to the increase in interest income on loans to customers resulting largely from the loan book growth during the period, and the decline in the cost of funds, which more than offset the increase in liquid assets (by GEL 343.9 million, or 25.7%, from 2011 to 2012) which carry lower interest rates than loans to customers, and the impact of the carrying cost of the Existing Notes. The decline in net interest margin in 2011 was primarily due to a decreased share of loans to customers as a percentage of total interest-earning assets (from GEL 2,351.7 million, or 78.4%, in 2010 to GEL 2,553.4 million, or 74.7%, in 2011), as well as by an increase in liquid assets (by GEL 314.8 million, or 30.8%, between 2010 and 2011).

Net Fee and Commission Income

The following table shows the principal components of the Group's net fee and commission income for the years indicated:

	For the years ended 31 December			
	2012		2011	2010
		(audited)		
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Settlement operations	41,767	69,208	62,015	50,511
Guarantees and letters of credit	16,202	26,846	17,528	12,362
Cash operations	5,326	8,826	9,048	8,061
Advisory	—	—	1,668	1,129
Currency conversion operations	1,088	1,802	1,507	677
Brokerage service fee	550	911	1,033	545
Other	1,017	1,685	742	980
Fee and commission income	**65,950**	**109,278**	**93,541**	**74,265**
Settlement operations	(8,957)	(14,841)	(12,255)	(7,324)
Cash operations	(911)	(1,510)	(2,424)	(780)
Guarantees and letters of credit	(2,442)	(4,046)	(1,856)	(1,164)
Currency conversion operations	(44)	(73)	(550)	(14)
Insurance brokerage service fees	(436)	(722)	(543)	(646)
Other	(615)	(1,018)	(576)	(917)
Fee and commission expense	**(13,405)**	**(22,210)**	**(18,204)**	**(10,845)**
Net fee and commission income	**52,545**	**87,068**	**75,337**	**63,420**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

Net fee and commission income increased by 15.6% in 2012 to GEL 87.1 million (US$52.5 million) from GEL 75.3 million in 2011, having increased by 18.8% from GEL 63.4 million in 2010. The increase in net fee and commission income from 2011 to 2012 was principally attributable to an increase of general economic activity in Georgia in 2012, which had a positive impact on the Bank's settlement operations, card business operations, guarantees and letters of credit and cash operations, all of which generate fee plus commission income. In addition, the growth of the Bank's transactional and remote banking operations through Express Banking contributed to the increase in the Group's net fee and commission income in 2012. The increase in net fee and commission expense in 2012, as compared to 2011, was mostly due to the initial expansion of Express Banking. The increase in net fee and commission income from 2010 to 2011 was the result of the GEL 19.3 million increase in fee and commission income, which more than offset the GEL 7.4 million increase in fee and commission expense. The growth of net fee and commission income was driven mostly by increases in fee and commission income from settlement operations (GEL 11.5 million) and from guarantees and letters of credit (GEL 5.2 million), in each case as a result of increased settlement operations and increased issuances of guarantees and letters of credit in light of improved economic conditions, macroeconomic growth, and increased foreign trade in Georgia. Fee and commission expense increased by 67.9% from GEL 10.8 million in 2010 to

GEL 18.2 million in 2011. The increase in fee and commission expense from 2010 to 2011, was principally the result of increased fee and commission expenses on settlement operations in line with the growth of the volume of such transactions.

Net Insurance Revenue

The following table sets forth the principal components of the Group's net insurance revenue for the years indicated:

	For the years ended 31 December			
	2012		2011	2010
	(audited)			
	(thousands of US dollars)[(1)]	(thousands of Lari)	(thousands of Lari)	(thousands of Lari)
Life insurance contracts premium written	2,456	4,069	2,200	2,562
General insurance contracts premium written	68,684	113,810	54,241	53,744
Total premiums written	**71,140**	**117,879**	**56,441**	**56,306**
Gross change in life provision	(59)	(98)	82	96
Gross change in general insurance contracts unearned premium provision	(9,011)	(14,931)	135	(1,001)
Total gross premiums earned on insurance contracts	**62,070**	**102,850**	**56,658**	**55,401**
Reinsurers' share of life insurance contracts premium written	(397)	(658)	(148)	(1,321)
Reinsurers' share of general insurance contracts premium written	(5,386)	(8,925)	(9,750)	(11,038)
Reinsurers' share of change in life provision	(39)	(65)	(183)	(57)
Reinsurers' share of change in general insurance contracts unearned premium provision	(1,223)	(2,026)	(181)	1,576
Total reinsurers' share of gross earned premiums on insurance contracts	**(7,045)**	**(11,674)**	**(10,262)**	**(10,840)**
Net insurance premiums earned	**55,025**	**91,176**	**46,396**	**44,561**
Life insurance claims paid	(325)	(539)	(465)	(1,272)
General insurance claims paid	(36,405)	(60,323)	(30,850)	(28,493)
Total insurance claims paid	**(36,730)**	**(60,862)**	**(31,315)**	**(29,765)**
Reinsurers' share of life insurance claims paid	51	84	428	988
Reinsurers' share of general insurance claims paid	774	1,282	1,186	1,497
Gross change in total reserves for claims	1,051	1,742	774	(1,486)
Reinsurers' share of change in total reserves for claims	432	716	269	868
Net insurance claims incurred	**(34,422)**	**(57,038)**	**(28,658)**	**(27,898)**
Net insurance revenue	**20,603**	**34,138**	**17,738**	**16,663**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

Net insurance premiums earned increased by 96.5% to GEL 91.2 million (US$55.0 million) in 2012 from GEL 46.4 million in 2011, having increased by 4.1% from GEL 44.6 million in 2010. The increase in net insurance premiums earned from 2011 to 2012 was due to both organic growth and through acquisitions. See "−*Overview of Acquisitions and Disposals*". The increase in net insurance premiums earned from 2010 to 2011 was due to organic growth of the insurance business and the overall increase in the insurance policies portfolio, both, life and general insurance. Total gross written premiums from Government of Georgia funded healthcare projects comprised GEL 60.7 million (US$36.8 million) GEL 12.5 million and GEL 12.9 million during 2012, 2011 and 2010, respectively, representing an increase of 385% in 2012, as compared to 2011 and a decrease of 3.1% in 2011, as compared to 2010.

Net insurance claims incurred increased by 99.0% to GEL 57.0 million (US$34.4 million) in 2012 from GEL 28.7 million in 2011, having previously increased by 2.7% from GEL 27.9 million in 2010. Net insurance claims incurred in 2012 grew in line with the growth of business, in particular following the acquisition of Imedi L healthcare business. The growth in net insurance claims incurred in 2010 and 2011 was mostly due to an increase of net incurred claims on programmes subsidised by the Government of Georgia following an increase in government-insured citizens in the Government's social support programme. Gross claims incurred on Government of Georgia subsidised healthcare projects were GEL 24.7 million (US$15.0 million), GEL 9.5 million and GEL 8.6 million during 2012, 2011 and 2010, respectively, representing an increase of 160% during 2012, as compared to 2011, and an increase of 10.4% during 2011, as compared to 2010.

Other Operating Non-Interest Income

The following table sets out certain information on the Group's other operating non-interest income for the years indicated:

	For the years ended 31 December			
	2012		2011	2010
	(audited)			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Net gains from trading securities and investment securities available-for-sale	1,393	2,308	1,382	2,006
Net gains (losses) from revaluation of investment properties	–	–	1,984	350
Net gains from foreign currencies:				
- dealing	20,150	33,389	45,694	33,651
- translation differences	9,766	16,182	30,747	98
Other operating income	4,600	7,623	8,767	10,625
Other operating non-interest income	**35,909**	**59,502**	**88,574**	**46,730**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

The Group's other operating non-interest income decreased by 32.8% to GEL 59.5 million (US$35.9 million) in 2012 from GEL 88.6 million in 2011, having increased by 89.5% from GEL 46.7 million in 2010.

The 32.8% decrease in other operating non-interest income from 2011 to 2012 was principally due to a one-off currency gain in 2011 in the amount of GEL 25.1 million (US$15.1 million) from the Belarusian Rouble currency hedge the Group entered into in connection with its investments in JSC Belarusky Narodny Bank. If adjusted for the one-off currency gain in 2011, other operating non-interest income decreased by 6.3%, or by GEL 4.0 million to GEL 59.5 million in 2012, as a result of the 3.5% decline in net gain from foreign currencies reflecting the slowdown of economic activity in the fourth quarter of 2012 and the decrease in other operating income. See "−*Factors Affecting the Group's Financial Statements −Macroeconomic Conditions*".

The increase in other operating non-interest income from 2010 to 2011 was principally the result of increased gains from foreign currency transactions as business activity, and, consequently, the volume of foreign currency transactions, grew. Commissions earned (dealing gains) by the Group from currency exchange transactions increased by 35.8% between 2011 and 2010 to GEL 45.7 million in 2011, and by 29.7% between 2010 and 2009 to GEL 33.7 million in 2010. In addition, gains from foreign currency translation differences increased by GEL 30.6 million in 2011, primarily caused by net gains of GEL 25.1 million from the Belarusian Rouble currency hedge. The depreciation of the Belarusian Rouble against the Lari caused a decline in the Lari equivalent value of JSC Belarusky Narodny Bank stand-alone shareholders' equity, and such loss is recognised through the Group's other comprehensive income statement. The Belarusian Rouble currency hedge allows the Group to record mitigating gains of a similar size (or sometimes even greater, as in 2011) in the Group's income statement.

The Group's net gains from trading securities and investment securities available-for-sale increased by 67.0% to a gain of GEL 2.3 million (US$1.4 million) in 2012 from a net gain of GEL 1.4 million in 2011, having decreased from a net gain of GEL 2.0 million in 2010.

In 2011, the Group earned GEL 2.0 million, as compared to GEL 0.4 million in 2010, as a result of the revaluation of its investment properties on a net basis (as some items increased in fair value while some declined), principally as a result of an increase in real estate prices driven by the start of the economic recovery in Georgia from the second half of 2009, which continued through 2010 and 2011.

Net gains from foreign currencies (including dealing and translation differences) decreased by 35.2% to GEL 49.6 million (US$29.9 million) in 2012 from GEL 76.4 million in 2011, having increased by 126.5% from GEL 33.7 million in 2010.

The increase in net gains from foreign currency dealing operations in 2011 was largely a result of increases in the volume of the Group's foreign currency transactions following the start of the economic recovery in Georgia from the second half of 2009 and subsequent increases in economic activity in Georgia in 2010 and 2011.

The increase in net gains from foreign translation differences between 2010 and 2011 was largely a result of net gains from the Belarusian Rouble currency hedge described above. The net gains from foreign currency translation differences in 2012 mostly comprised of hyperinflationary gains by the Bank's Belarus banking operation, as well as a one-off foreign currency open position revaluation by BNB. The decline in 2012 as compared to 2011 was due to lower fluctuations of the BYR exchange rate against GEL and US$ during the period.

Other operating income decreased by 13.0% to GEL 7.6 million (US$4.6 million) in 2012 from GEL 8.8 million in 2011, having decreased by 17.5% from GEL 10.6 million in 2010. The decrease in other operating income between 2011 and 2012 was mostly attributable to the discontinuation of Liberty Consumer operations, the Bank's none-core business.

Revenue

As a result of the foregoing, the Group's revenue increased by 15.0% to GEL 498.8 million (US$301.0 million) in 2012 from GEL 433.8 million in 2011, having increased by 25.7% from GEL 345.0 million in 2010.

Other Operating Non-Interest Expenses

The following table shows the composition of the Group's other operating non-interest expenses for the years indicated:

	For the years ended 31 December			
	2012		2011	2010
	(audited)			
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Salaries and other employee benefits	(73,204)	(121,299)	(114,622)	(103,885)
General and administrative expenses	(39,642)	(65,686)	(61,942)	(60,568)
Depreciation and amortisation..	(17,264)	(28,606)	(27,254)	(27,963)
Other operating expenses	(1,779)	(2,949)	(6,347)	(5,719)
Operating expenses	**(131,889)**	**(218,540)**	**(210,165)**	**(198,135)**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

Other operating non-interest expenses increased by 4.0% to GEL 218.5 million (US$131.9 million) in 2012 from GEL 210.2 million in 2011, having increased by 6.1% from GEL 198.1 million in 2010. The increase in other operating non-interest expenses from 2011 to 2012 was principally due to increases in salaries and other employee benefits and general and other administrative expenses, as well as depreciation and amortisation expenses, partially offset by decrease in other operating expenses. The increase in other operating non-interest expenses from 2010 to 2011 was principally due to increases in salaries and other employee benefits, general and other administrative expenses and other operating expenses.

Salaries and other employee benefits increased by 5.8% to GEL 121.3 million (US$73.2 million) in 2012 from GEL 114.6 million in 2011, having increased by 10.3% from GEL 103.9 million in 2010.

The increase in salaries and other employee benefits costs from 2011 to 2012 was attributable to the Group's headcount growth to support the Group's increased revenue base in 2012.

The increase in salaries and other employee benefits costs from 2010 to 2011 was attributable to both an increase in bonuses as the volume of business operations and net operating income grew, as well as growth in headcount due to both ordinary business needs and the acquisition of the Block Georgia group of companies in December 2011.

General and other administrative expenses increased by 6.0% to GEL 65.7 million (US$39.6 million) in 2012 from GEL 61.9 million in 2011, having increased by 2.3% from GEL 60.6 million in 2010. The increase in general and administrative expenses from 2011 to 2012 was due to expenditures on new Express Banking branches and distribution channels (such as ATMS and Express Pay (self-service) terminals) and marketing costs. The increase in general and administrative expenses from 2010 to 2011 was due to increases in marketing and advertising expenses, operating taxes, travel expenses, repairs and maintenance, banking services and personnel training and recruitment.

The Bank had 194, 158 and 142 branches in Georgia as of 31 December 2012, 2011 and 2010, respectively. The increase in the number of branches between 2010 and 2011 also contributed in part to the increase in general and administrative expenses.

Depreciation and amortisation increased by 5.0% to GEL 28.6 million (US$17.3 million) in 2012 from GEL 27.3 million in 2011, having decreased by 2.5% from GEL 28.0 million in 2010. The increase of depreciation expenses in 2012 was a result of the addition of GEL 60.2 million of new assets to property and equipment during the year. The Group engaged independent experts in 2011 to estimate the useful economic lives of its administrative buildings, including property and equipment. Based on the relevant methodology and thorough technical examinations of the buildings, the experts produced independent reports on the relevant estimated useful economic lives of the administrative buildings. The decrease from 2010 to 2011 was attributable to the Group's revised estimates of the useful economic lives in respect of such buildings based on the 2011 independent expert reports. The decrease was partially offset by increased depreciation expenses following the completion of the Bank's new headquarters in the fourth quarter of 2011, as well as in the addition of new properties following the acquisition of the Block Georgia group of companies by Aldagi in December 2011.

Other operating expenses decreased by 53.5% to GEL 3.0 million (US$1.8 million) in 2012 from GEL 6.3 million in 2011, having increased by 11.0% from GEL 5.7 million in 2010. The decrease from 2011 to 2012 was due to cost efficiency measures undertaken in 2012. The increase from 2010 to 2011 was mostly attributable to an increase in Aldagi's healthcare operating expenses, as well as an increase in the operating expenses of certain non-core subsidiaries of Liberty Consumer.

Operating Income Before Cost of Credit Risk

As a result of the foregoing factors, the Group's operating income before cost of credit risk increased by 25.4% to GEL 280.3 million (US$169.2 million) in 2012 from GEL 223.6 million in 2011, having increased by 52.2% from GEL 146.9 million in 2010.

Cost of Credit Risk

The following table shows the composition of the Group's cost of credit risk for the years indicated:

	For the years ended 31 December			
	2012		**2011**	**2010**
	(audited)			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Impairment charge on loans to customers	(23,649)	(39,186)	(23,216)	(49,886)
(Impairment charge) reversal of impairment on finance lease receivables	(299)	(495)	(317)	5,775
Impairment charge on other assets and provisions	(3,039)	(5,036)	1,337	(3,587)
Cost of credit risk	**(26,987)**	**(44,717)**	**(22,196)**	**(47,698)**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

Cost of credit risk increased by 101.5% to GEL 44.7 million (US$27.0 million) in 2012 from GEL 22.2 million in 2011, having decreased by 53.5% from GEL 47.7 million in 2010. The increase from 2011 to 2012 was primarily the result of the increase in impairment charge on loans to customers. The decrease from 2010 to 2011 was largely due to improvement of the loan portfolio credit quality of the Group, particularly following the disposal of BG Bank in February 2011. Cost of risk (that is the ratio of impairment charges on loans to average gross loans to customers) was 1.3% in 2012, 0.9% in 2011 and 2.3% in 2010.

Impairment charge on loans to customers increased by 68.8% to GEL 39. 2 million (US$23. 6 million) in 2012 from GEL 23.2 million in 2011, having decreased by 53.5% from GEL 49.9 million in 2010. Impairment charge on interest-earning assets increased by 68.6% to GEL 39.7 million (US$23.9 million) in 2012 from GEL 23.5 million in 2011, having decreased by 46.7% from GEL 44.1 million in 2010. The increase in the impairment charge on loans to customers in 2012, as compared to 2011, was due to the increase in the size of the gross loan portfolio during the periods and an increase in impairment charge on both the retail banking and corporate banking loan books. The factors that negatively affected the cost of risk were partially offset by the effects of a change in the methodology for provisioning non-specific risks in the loan portfolio. The loss experience used to determine the appropriate general risk provision was changed from seven years to three years in retail banking in 2012, which is in line with best international practices for such loss assessment. The decrease in the impairment charge on loans to customers in 2011 compared to 2010 was due to the continued growth of the Georgian economy, which resulted in improvements in the operating environment, as well as to the disposal of BG Bank in February 2011. Allowance for loan impairment was GEL 110.0 million (or 3.5% of total gross loans), GEL 114.7 million (or 4.3% of gross total loans) and GEL 175.5 million (or 6.9% of gross total loans) as of 31 December 2012, 2011 and 2010, respectively.

Impairment charge on finance lease receivables was GEL 0.5 million (US$0.3 million) in 2012 and GEL 0.3 million in 2011, as compared to a reversal of impairment on finance lease receivables of GEL 5.8 million in 2010. The change to the impairment charge in 2011 was primarily caused by growth of the finance lease receivables portfolio in 2011 as the business grew.

Impairment charge on other assets and provisions was GEL 5.0 million (US$3.0 million) in 2012, largely due to provision for guarantee issued to one large corporate borrower of the Bank as well as impairment of insurance premiums receivable by Aldagi. Reversal of impairment on other assets and provisions was GEL 1.3 million in 2011 primarily due to changes in estimates for provisions of guarantees made in 2011. Impairment charge on other assets and provisions was GEL 3.6 million in 2010. The reversal of impairment on other assets and provisions from 2010 to 2011 was primarily due to changes in estimates for provisions of guarantees made in 2011. The Group estimates possible losses from guarantees based on historical losses actually incurred.

Net Operating Income

As a result of the foregoing, the Group had net operating income of GEL 235.6 million (US$142.2 million) in 2012, as compared to a net operating income of GEL 201.4 million in 2011 and GEL 99.2 million in 2010.

Impairment of Goodwill, Intangible Assets and Property and Equipment

Impairment of goodwill comprises impairment charges taken against goodwill. The Group determines whether goodwill is impaired at least on an annual basis.

The Group had an impairment charge on goodwill of GEL 0.7 million (US$0.4 million) in 2012. The Group had an impairment charge on goodwill of GEL 23.4 million in 2011. The Group did not have an impairment charge on goodwill in 2010. The impairment charge in 2012 was comprised of the full amount of JSC Intertour goodwill (a tourist agency subsidiary of Liberty Consumer). The impairment charge in 2011 was comprised of the full amount of BNB goodwill.

The carrying amount of goodwill allocated to each of the cash-generating units was as follows:

	As of 31 December			
	2012		2011	2010
	(audited)			
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Insurance & Healthcare	11,964	19,825	19,339	18,962
Retail banking	7,503	12,433	12,433	12,433
BNB & BGB	—	—	—	23,394
Corporate banking	6,014	9,965	9,965	9,965
Liberty Consumer	2,072	3,434	4,458	4,458
Total	**27,553**	**45,657**	**46,195**	**69,212**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

The Group had an impairment charge on property and equipment of GEL 0.1 million (US$0.04 million) in 2012. The Group did not have an impairment charge on property and equipment in 2011. The Group had an impairment charge of property and equipment of GEL 0.4 million in 2010.

The impairment of property and equipment in 2010 principally comprised the devaluation (at lower than historical cost) of buildings that suffered devaluation (at lower than historical cost) of equipment, furniture and other fixed assets as a result of the reorganisation of BG Bank through the closure of its branches in 2009 and, to a lesser extent, from the 2008 Conflict.

Net Non-Operating (Expense) Income

The following table shows the composition of the Group's other non-operating income (expense) for the years indicated:

	For the years ended 31 December			
	2012		2011	2010
	(audited)			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Share of profit (loss) of associates	(90)	(149)	(487)	255
Gain from hyperinflation	—	—	5,169	—
Net other non-operating expenses	(11,183)	(18,531)	(10,626)	(545)
Net non-operating expense	**(11,273)**	**(18,680)**	**(5,944)**	**(290)**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

Net non-operating expense was GEL 18.7 million (US$11.3 million) in 2012, as compared to net non-operating expense of GEL 5.9 million in 2011 and non-operating expense of GEL 0.3 million in 2010.

The increase in net non-operating expense in 2012 was mostly due to expenses incurred in connection with the Tender Offer and Premium Listing of Bank of Georgia Holdings on the London Stock Exchange premium segment in February 2012, as well as impairment of non-core investments in Liberty Consumer. The net non-operating expense of GEL 5.9 million in 2011 was mainly due to the losses on early redemption of Eurobonds (issued by the Group in February 2007) as reflected in net other non-operating expense of GEL 10.6 million. Net other non-operating expense in 2012 was primarily comprised of expenses of GEL 6.2 million in connection with BGH's premium listing on the London Stock Exchange, including the incorporation of BGH as a new holding company in the United Kingdom and the Tender Offer. Net other non-operating expenses in 2011 was primarily comprised of expenses of GEL 6.4 million incurred on the buy-back of Eurobonds and were partially mitigated by a gain from hyperinflation of the Belarusian economy. Other non-operating expense was partially mitigated by other non-operating income of GEL 1.5 million, which comprised of a one-off gain (negative goodwill recognised in accordance with IFRS 3) from the business combination with the "**Block Georgia group of companies**". With effect as of 1 January 2011, the Belarusian economy has been considered to be hyperinflationary in accordance with the criteria in IAS 29 "Financial Reporting in Hyperinflationary Economies", and the effect of such inflation on the Group's net non-monetary position translated into a gain of GEL 5.2 million for the year ended 31 December 2011. The net non-operating expenses in 2010 were mainly due to the losses on early redemption of Eurobonds and a share of profit of associates (principally caused by the economic recovery in 2010 having a positive effect on the results of associates.

Profit (Loss) Before Income Tax (Expense) Benefit From Continuing Operations

As a result of the foregoing, the Group had profit before income tax expense from continuing operations of GEL 215.9 million (US$130.3 million) in 2012, as compared to a profit of GEL 172.1 million in 2010 and a profit of GEL 98.4 million in 2010.

Income Tax (Expense) Benefit

The Group had income tax expense of GEL 33.2 million (US$20.0 million) in 2012, GEL 21.1 million in 2011 and GEL 15.8 million in 2010.

	For the years ended 31 December			
	2012		2011	2010
	(audited)			
	(thousands of US dollars)[1]	(thousands of Lari)	(thousands of Lari)	(thousands of Lari)
Profit (loss) before income tax (expense) benefit from continuing operations	130,323	215,945	172,054	98,443
Net loss before income tax benefit from discontinued operations	—	—	(38,406)	—
Profit (loss) before income tax (expense) benefit	**130,323**	**215,945**	**133,648**	**98,443**
Statutory tax rate	15%	15%	15%	15%
Theoretical income tax (expense) benefit at the statutory rate	**(19,549)**	**(32,392)**	**(20,047)**	**(14,766)**
Tax at the domestic rates applicable to profits in the respective country	(855)	(1,417)	(2,050)	(291)
Correction of prior year declarations[2]	—	—	8,408	—
Loss on disposal of subsidiary[3]	—	—	18,593	—
Other operating income	—	—	—	229
State securities at lower tax rates	—	—	—	564
Non tax-deductible expenses:	—	—	(3,509)	(1,694)
Other	368	609	667	182
Income tax (expense) benefit	**(20,036)**	**(33,200)**	**2,062**	**(15,776)**
Income tax (expense) benefit attributable to continuing operations	(20,036)	(33,200)	(21,125)	(15,776)
Income tax benefit attributable to a discontinued operation	—	—	23,187	—

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

(2) Correction of prior year declarations are fully attributable to Georgia and includes GEL 3.3 million of the corporate income tax benefit for the prior years, recognised in 2011, based on the new tax ruling obtained from the tax authorities in Georgia regarding the updated treatment of the deductibility of the share-based compensation expense before taxable profit.

(3) This is loss recognised in tax declaration of 2011 from disposal of PJSC Bank Pershyi (formerly known as JSC BG Bank).

Profit (Loss) for the Period From Continuing Operations

The Group generated a net profit for the period from continuing operations of GEL 182.7 million (US$110.3 million) in 2012, GEL 150.9 million in 2011 and GEL 82.7 million in 2010.

Profit (Loss) for the Period

The Group generated a net profit of GEL 182.7 million (US$110.3 million) in 2012, GEL 135.7 million in 2011 and GEL 82.7 million in 2010.

Analysis of Consolidated Financial Position

As of 30 June 2013 and 31 December 2012

The following table sets out the Group's assets, liabilities and equity as of the dates indicated:

	As of 30 June		As of 31 December
	2013		2012
	(unaudited)		*(audited)*
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(thousands of Lari)*
Cash and cash equivalents	326,036	538,285	750,517
Amounts due from credit institutions	197,781	326,537	396,559
Investment securities available-for-sale	440,432	727,153	534,698
Loans to customers, net	1,882,488	3,107,988	3,033,667
Finance lease receivables	16,494	27,232	71,686
Investments in associates	–	–	2,441
Investment properties	102,800	169,722	160,353
Property and equipment	270,869	447,205	430,877
Goodwill	27,654	45,657	45,657
Other intangible assets	14,560	24,039	23,078
Income tax assets:			
- current	1,034	1,707	944
- deferred	8,621	14,234	14,352
Prepayments	18,250	30,130	41,147
Other assets	180,288	297,655	221,042
Total assets	**3,487,307**	**5,757,544**	**5,727,018**
Liabilities			
Amounts due to customers	1,727,906	2,852,772	2,693,025
Amounts due to credit institutions	893,813	1,475,686	1,657,162
Income tax liabilities:			
- current	3,781	6,242	13,818
- deferred	34,595	57,116	48,320
Other liabilities	111,938	184,812	184,907
Total liabilities	**2,772,033**	**4,576,628**	**4,597,232**
Equity			
Share capital	22,116	36,513	36,513
Additional paid-in capital	364,804	602,291	615,627
Treasury shares	(281)	(464)	(464)
Other reserves	27,337	45,133	25,821
Retained earnings	270,988	447,402	408,538
Total equity attributable to shareholders	**684,964**	**1,130,875**	**1,086,035**
Non-controlling interest	30,310	50,041	43,751
Total equity	**715,274**	**1,180,916**	**1,129,786**
Total liabilities and equity	**3,487,307**	**5,757,544**	**5,727,018**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

Total Assets

As of 30 June 2013, the Group had total assets of GEL 5,757.5 million (US$3,487.3 million), as compared to total assets of GEL 5,727.0 million as of 31 December 2012. The GEL 30.5 million (or 0.5%) increase was primarily due to the increases in investment securities – available for sale, loans to customers, other assets, property and equipment and investment properties.

66.9% of gross loans to customers were denominated in foreign currency (mainly US dollars) as of 30 June 2013 and, as a result, any US dollar/Lari exchange rate fluctuations causes increases or decreases in the value of gross loans to customers and, therefore, to total assets. Including the effect of Lari appreciation by 0.4% against the US dollar between 31 December 2012 and 30 June 2013, the Group's consolidated net loans to customers in Lari terms increased by GEL 74.3 million (or 2.4%) while in US dollar terms they increased by US$51.5 million, or 2.8%, between 31 December 2012 and 30 June 2013.

Total Liabilities

As of 30 June 2013, the Group had total liabilities of GEL 4,576.6 million (US$2,772.0 million), as compared to total liabilities of GEL 4,597.2 million as of 31 December 2012. The GEL 20.6 million (or 0.4%) decrease was primarily due to decreases in amounts due to credit institutions and current income tax liabilities.

Total Equity

As of 30 June 2013, the Group had total equity of GEL 1,180.9 million (US$715.3 million), as compared to total equity of GEL 1,129.8 million as of 31 December 2012. The GEL 51.1 million (or 4.5%) increase in total equity was due to increases in all equity items, except share capital and treasury shares.

As of 31 December 2012, 2011 and 2010

The following table sets out the Group's assets, liabilities and equity as of the dates indicated.

	As of 31 December			
	2012		2011	2010
	(audited)			
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Cash and cash equivalents	452,937	750,517	628,731	611,584
Amounts due from credit institutions	239,323	396,559	289,530	116,469
Investment securities:				
- available for sale	322,690	534,698	419,576	294,940
- held-to-maturity	—	—	—	21
Loans to customers, net	1,830,819	3,033,667	2,553,442	2,351,697
Finance lease receivables	43,263	71,686	62,919	14,419
Investments in associates	1,473	2,441	3,014	5,632
Investment properties	96,773	160,353	101,686	113,496
Property and equipment	260,034	430,877	348,110	285,852
Goodwill	27,554	45,657	46,195	69,212
Other intangible assets	13,928	23,078	21,222	22,390
Income tax assets:				
- current	570	944	8,487	2,247
- deferred	8,661	14,352	14,852	18,178
Prepayments	24,832	41,147	29,929	23,365
Other assets	133,399	221,042	137,568	75,420
Total assets	**3,456,256**	**5,727,018**	**4,665,261**	**4,004,922**
Liabilities				
Amounts due to customers	1,625,241	2,693,025	2,735,222	2,026,308
Amounts due to credit institutions	1,000,098	1,657,162	921,172	1,138,927
Income tax liabilities:				
- current	8,339	13,818	1,174	4,251
- deferred	29,161	48,320	36,242	30,901
Other liabilities	111,590	184,907	158,848	111,194
Total liabilities	**2,774,429**	**4,597,232**	**3,852,658**	**3,311,581**
Equity				
Share capital	22,036	36,513	32,878	31,345
Additional paid-in capital	371,531	615,627	473,732	477,285
Treasury shares	(280)	-464	-3,146	-1,510
Other reserves	15,583	25,821	14,478	26,816
Retained earnings	246,553	408,538	254,588	130,314
Total equity attributable to shareholders	**655,423**	**1,086,035**	**772,530**	**664,250**
Non-controlling interest	26,404	43,751	40,073	29,091
Total equity	**681,827**	**1,129,786**	**812,603**	**693,341**
Total liabilities and equity	**3,456,256**	**5,727,018**	**4,665,261**	**4,004,922**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

Total Assets

The Group had total assets of GEL 5,727.0 million (US$3,456.3 million) as of 31 December 2012, as compared to total assets of GEL 4,665.3 million as of 31 December 2011. The GEL 1,061.8 million (or 22.8%) increase was primarily due to the GEL 121.8 million (or 19.4%) increase in cash and cash equivalents, the GEL

107.0 million (or 37.0%) increase in amounts due from credit institutions, the GEL 115.1 million (or 27.4%) increase in investment securities, the GEL 480.2 million (or 18.8%) increase in net loans to customers, the GEL 8.8 million (or 13.9%) increase in finance lease receivables, the GEL 58.7 million (or 57.7%) increase in investment properties, the GEL 82.8 million (or 23.8%) increase in property and equipment, the GEL 11.2 million (or 37.5%) increase in prepayments, the GEL 83.5 million (or 60.7%) increase in other assets and the GEL 1.3 million (or 2.0%) increase in goodwill and intangible assets, which were partially offset by the GEL 8.0 million (or 34.5%) decrease in income tax assets (current and deferred) and the GEL 0.6 million (or 19.0%) decrease in investments in associates. The increase in cash and cash equivalents was primarily due to an increase in cash on hand. The increase in amounts due from credit institutions was primarily due to an increase in obligatory reserves with the NBG and time deposits with effective maturity of more than 90 days. The increase in investments securities was primarily due to an increase in NBG certificates of deposit. The increase in net loans to customers and finance lease receivables was due to increases in demand for these products as a result of the growth of the Georgian economy. The increase in investment properties was primarily driven by foreclosed properties. The increase in property and equipment was primarily due to the acquisition of Imedi L, as well as an increase in the number the Bank's branches. The increase in other assets was primarily driven by growth in insurance premiums receivable and inventories.

As of 31 December 2011, the Group had total assets of GEL 4,665.3 million, as compared to total assets of GEL 4,004.9 million as of 31 December 2010. The GEL 660.3 million (or 16.5%) increase was primarily due to the GEL 17.1 million (or 2.8%) increase in cash and cash equivalents, the GEL 173.1 million (or 148.6%) increase in amounts due from credit institutions, the GEL 201.7 million (or 8.6%) increase in net loans to customers, the GEL 48.5 million (or 336.4%) increase in finance lease receivables, the GEL 124.6 million (or 42.2%) increase in investment securities, the GEL 62.3 million (or 21.8%) increase in property and equipment, the GEL 2.9 million (or 14.3%) increase in income tax assets (total current and deferred), the GEL 6.6 million (or 28.1%) increase in prepayments and the GEL 62.1 million (or 82.4%) increase in other assets, which were partially offset by the GEL 2.6 million (or 46.5%) decrease in investments in associates, the GEL 11.8 million (or 10.4%) decrease in investment properties and the GEL 24.2 million (or 26.4%) decrease in goodwill and other intangible assets. The increase in cash and cash equivalents was primarily due to an increase in current accounts with other credit institutions. The increase in amounts due from credit institutions was principally due to an increase in obligatory reserves with the NBG. The increase in net loans to customers and finance lease receivables was due to increases in demand for each of these products as a result of the growth of the Georgian economy. The decrease in investment properties was primarily driven by the devaluation of foreclosed properties. The increase in investments securities was primarily caused by the Bank's investment of its increased excess liquidity in short-term interest-earning assets. The increase in property and equipment was primarily due to the acquisition of the Block Georgia group of companies, as well as completion of the renovation costs of the Bank's new headquarters. The increase in income tax assets was caused by the tax benefits recognised by the Group's non-banking subsidiaries on their respective pre-tax losses. The increase in other assets was caused by an increase in all of its line item components in general, and in particular by the growth in derivative financial assets recognised from the Belarusian Rouble currency hedge, inventories of the Group's newly acquired healthcare business, growth of the Group's non-core winery business in Teliani Valley, and growth of insurance premiums and healthcare receivables. The decrease in goodwill was the result of a write-off for the full amount of BNB goodwill.

68.1% of gross loans to customers were denominated in foreign currency (mainly US dollars) as of 31 December 2012 and, as a result de-dollarisation efforts by the Group, was also reflected in the increase in Lari-denominated deposits.

68.0% of gross loans to customers were denominated in foreign currency (mainly US dollars) as of 31 December 2011 and, as a result, any US dollars/Lari exchange rate fluctuation causes increases and decreases in the value of gross loans to customers and therefore to total assets. Including the effect of the Lari appreciation by 6.1% against the US dollar between 2011 and 2010, the Group's consolidated net loans to customers in Lari terms increased by GEL 201.7 million (or 8.6%).

Total Liabilities

As of 31 December 2012, the Group had total liabilities of GEL 4,597.2 million (US$2,774.4 million) as compared to total liabilities of GEL 3,852.7 million as of 31 December 2011. The GEL 744.6 million (or 19.3%) increase was primarily due to the GEL 736.0 million (or 79.9%) increase in amounts due to credit institutions, the GEL 24.7 million (or 66.1%) increase in income tax liabilities (current and deferred) and the GEL 26.1 million (or 16.4%) increase in other liabilities, which were partially offset by the GEL 42.2 million (or 1.5%) decrease in amounts due to customers.

As of 31 December 2011, the Group had total liabilities of GEL 3,852.7 million as compared to total liabilities of GEL 3,311.6 million as of 31 December 2010. The GEL 541.1 million (or 16.3%) increase was primarily due to the GEL 708.9 million (or 35.0%) increase in amounts due to customers as a result of continued growth of the Georgian economy and increased business activity, the GEL 2.3 million (or 6.4%) increase in income tax liabilities mostly driven by growth of the Bank's stand-alone deferred income tax liabilities following an increase in operating profits and the GEL 47.7 million (or 42.9%) increase in other liabilities mainly due to increases in accruals for employee compensation, as well as accounts payable, accruals and deferred income.

Total Equity

As of 31 December 2012, the Group had total equity of GEL 1,129.8 million (US$681.8 million), as compared to total equity of GEL 812.6 million as of 31 December 2011. The GEL 317.2 million (or 39.0%) increase in total equity was due to increases in all equity items.

The GEL 317.2 million increase in equity from GEL 812.6 million as of 31 December 2011 to GEL 1,129.8 million as of 31 December 2012 was primarily attributed to conversion of loan notes into equity by EBRD and IFC in February 2012. On 24 February 2012, EBRD and IFC, pursuant to the terms of their respective convertible subordinated loans issued to JSC Bank of Georgia in 2008, converted US$49.9 million of their loans to the Bank.

As of 31 December 2011, the Group had total equity of GEL 812.6 million, as compared to total equity of GEL 693.3 million as of 31 December 2010. The GEL 119.3 million (or 17.2%) increase in total equity was primarily due to an increase in retained earnings by GEL 124.3 million between 2011 and 2010, to GEL 254.6 million as of 31 December 2011, and an increase in non-controlling interest by GEL 11.0 million between 2011 and 2010, to GEL 40.1 million as of 31 December 2011. The increase in non-controlling interest was primarily due to the minority interest held in the acquired Block Georgia group of companies.

Analysis of Consolidated Cash Flows

Six Months Ended 30 June 2013 and 2012

The following table summarises the Group's cash flows for the six months ended 30 June 2013 and 2012.

	For the six months ended 30 June		
	2013		**2012**
	(thousands of US dollars)[(1)]	*(unaudited)* *(thousands of Lari)*	*(thousands of Lari)*
Net cash flows from (used in) operating activities	**29,778**	**49,164**	**(215,793)**
Cash flows from (used in) investing activities			
Acquisition of subsidiaries, net of cash acquired	—	—	(7,946)
Proceeds from sale of investment securities: available-for-sale	29,329	48,423	148,628
Purchase of investment securities: available-for-sale	(142,711)	(235,616)	(145,851)
Proceeds from sale of investment properties	5,891	9,726	10,205
Purchase of property and equipment and intangible assets	(18,554)	(30,632)	(29,276)
Net cash flows used in investing activities	**(126,045)**	**(208,099)**	**(24,240)**
Cash flows from (used in) financing activities			
Dividends paid	(32,455)	(53,583)	(25,267)
Purchase of treasury shares	—	—	(10,285)
Sale of treasury shares	—	—	94
Proceeds from sale of non-controlling interest in existing subsidiary	—	—	749
Net cash flows used in financing activities	**(32,455)**	**(53,583)**	**(34,709)**
Effect of exchange rates changes on cash and cash equivalents	173	286	(5,464)
Net decrease increase in cash and cash equivalents	**(128,549)**	**(212,232)**	**(280,206)**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

Net Cash Flows Used in Operating Activities

Net cash flows from (used in) operating activities were GEL 49.2 million (US$29.8 million) and GEL 215.8 million during the six months ended 30 June 2013 and 2012, respectively. The GEL 265.0 million increase in net cash flows from operating activities during the first half of 2013, as compared to the first half of 2012, was due to a decline in disbursements of new loans and an increase in amounts due to credit institutions.

Years Ended 31 December 2012, 2011 and 2010

The following table summarises the Group's cash flows for the years ended 31 December 2012, 2011 and 2010.

	For the years ended 31 December			
	2012		2011	2010
	(audited)			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Net cash flows from operating activities	**153,655**	**254,607**	**208,047**	**309,339**
Cash flows from (used in) investing activities				
Acquisition of subsidiaries, net of cash acquired	(5,436)	(9,008)	408	(139)
Proceeds from sale of subsidiary	—	—	8,747	—
Proceeds from sale of investment securities: available-for-sale	133,961	221,973	20,625	1,518
Purchase of investment securities: available-for-sale	(160,121)	(265,320)	(138,529)	—
Purchase of investment securities: held-to-maturity	—	—	—	(28,769)
Proceeds from sale of investments in associates	103	170	332	—
Proceeds from sale of investment properties	9,428	15,622	7,889	5,490
Proceeds from sale of property and equipment and intangible assets	—	—	—	13,312
Purchase of property and equipment and intangible assets	(36,741)	(60,880)	(76,239)	(41,839)
Net cash flows used in investing activities	**(58,806)**	**(97,443)**	**(176,767)**	**(50,427)**
Cash flows from (used in) financing activities				
Dividends paid	(15,249)	(25,267)	(9,169)	—
Proceeds from increase in share capital	—	—	—	—
Purchase of treasury shares	(6,207)	(10,285)	(34,598)	(17,986)
Sale of treasury shares	57	94	28,044	7,552
Proceeds from sale of non-controlling interest in existing subsidiary	400	663	2,453	—
Purchase of additional interests by non-controlling shareholders	—	—	—	11,973
Purchase of additional interests in existing subsidiaries, net of cash acquired	(425)	(704)	—	(6,854)
Net cash flows used in financing activities	**(21,424)**	**(35,499)**	**(13,270)**	**(5,315)**
Effect of exchange rates changes on cash and cash equivalents	73	121	(863)	98
Net increase(decrease) in cash and cash equivalents	**73,498**	**121,786**	**17,147**	**253,695**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

Every cash-flow line item in 2011 was affected by the disposal of BG Bank in February 2011, as compared to 2010, which included BG Bank's cash flows for the full year.

Net Cash Flows (Used in) from Operating Activities

Operating assets comprise: amounts due from credit institutions, loans to customers, finance lease receivables, prepayments and other assets. Operating liabilities comprise: amounts due to credit institutions, amounts due to customers and other liabilities.

Net cash flows from operating activities were GEL 254.6 million (US$153.7 million) in 2012, GEL 208.0 million in 2011 and GEL 309.3 million in 2010. The GEL 46.6 million (or 22.4%) increase in net cash flows from operating activities in 2012 was mostly due to increased cash from operating activities before changes in operating assets and liabilities. The GEL 101.3 million (or 32.7%) decrease in net cash flows from operating activities during 2011 was due to the GEL 163.3 million net decrease in operating assets and liabilities, mostly caused by increased repayments of amounts due to credit institutions in 2011. However, the decrease was partially offset by the GEL 65.9 million increase in cash flows from operating activities before changes in operating assets and liabilities. Notwithstanding the disposal of BG Bank, the Group increased net cash flows from operating activities as a result of the further improved business and macroeconomic environment in Georgia. The net cash flows from operating activities during 2010 were due to the continued improvement in business activity and combined growth of GEL 963.5 million in amounts due to customers and amounts due to credit institutions.

Net Cash Flows Used in Investing Activities

Net cash flows used in investing activities were GEL 97.4 million (US$58.8 million), GEL 176.8 million and GEL 50.4 million in 2012, 2011 and 2010, respectively. The 44.9% decrease in the cash outflows from investing activities from 2011 to 2012 was principally caused by an increase in sale of investment securities available-for-sale. The 250.5% increase in the cash outflows from investing activities from 2010 to 2011 was principally caused by the GEL 119.4 million increase in net cash invested in available-for-sale securities, as well as by the GEL 47.7 million increase in net cash invested in property and equipment and intangible assets.

In 2012, 2011 and 2010, the Group had cash outflows of GEL 60.9 million (US$36.7 million), GEL 76.2 million and GEL 41.8 million, respectively, on purchases of property and equipment and intangible assets, and cash inflows of nil, nil and GEL 13.3 million, respectively, from the sale of property and equipment and intangible assets.

Cash Flows (Used in) from Financing Activities

Net cash flows used in financing activities were GEL 35.5 million (US$21.4 million), GEL 13.3 million and GEL 5.3 million in 2012, 2011 and 2010, respectively.

Net cash flows used in financing activities in 2012 was primarily attributable to the GEL 25.3 million dividends paid to shareholders and GEL 10.2 million net purchase of treasury shares. Net cash flows used in financing activities in 2011 was primarily attributable to the GEL 9.2 million dividends paid to shareholders and GEL 6.6 million net purchase of treasury shares. Net cash flows used in financing activities in 2010 was primarily attributable to the GEL 10.4 million net purchase of treasury shares, as well as acquisitions of additional interests in existing subsidiaries.

Off-Balance Sheet Arrangements

The Group enters into certain financial instruments with off-balance sheet risk in the normal course of its business to meet the needs of its clients and for purposes of its treasury operations. These instruments, which include guarantees, letters of credit and undrawn loan facilities, expose the Group to credit risk and are not reflected in the Group's consolidated statement of financial position. The Group's exposure to such instruments is represented by the maximum contractual amount of these instruments. The Group's off-balance sheet arrangements are included in the table below which sets out the details of the Group's commitments on guarantees, letters of credit, undrawn loans, operating leases and capital expenditures as of the dates indicated. See "—*Commitments and Contingencies*" below.

Commitments and Contingencies

The Group has commitments and contingent liabilities in respect of, *inter alia*, guarantees and letters of credit on behalf of its clients. These instruments bear a credit risk similar to that of loans granted to customers. The Group also has commitments in respect of operating leases and capital expenditures. The following tables set out the details of the Group's commitments on guarantees, letters of credit, undrawn loans, operating leases and capital expenditures as of the dates indicated.

	As of 30 June		As of 31 December
	2013		2012
	(unaudited)		*(audited)*
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(thousands of Lari)*
Guarantees	276,783	456,968	502,511
Letters of credit	26,484	43,725	100,023
Undrawn loan facilities	85,894	141,811	140,003
Total credit related commitments	**389,161**	**642,504**	**742,537**
Operating lease commitments	12,723	21,006	19,560
Capital expenditure commitments	803	1,325	3,069
Provisions	(293)	(483)	(683)
Receivables related to letters of credit	(13,516)	(22,315)	(31,439)
Total financial commitments and contingencies, net	**388,878**	**642,037**	**733,044**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

	As of 31 December			
	2012		2011	2010
	(audited)			
	(thousands of US dollars)[(1)]	(thousands of Lari)	(thousands of Lari)	(thousands of Lari)
Guarantees	303,266	502,511	463,393	374,230
Letters of credit	60,364	100,023	70,224	58,779
Undrawn loan facilities	84,492	140,003	120,339	138,057
Total credit related commitments	**448,122**	**742,537**	**653,956**	**571,066**
Operating lease commitments	11,804	19,560	18,141	27,037
Capital expenditure commitments	1,852	3,069	47,918	39,523
Provisions	(412)	(683)	(386)	(4,407)
Receivables related to letters of credit	—	—	(515)	—
Cash held as security against letters of credit and guarantees	(18,973)	(31,439)	(24,353)	(20,336)
Total financial commitments and contingencies, net	**442,393**	**733,044**	**694,761**	**612,883**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

The outstanding contractual amount of any guarantee or letter of credit included in the total credit commitments does not necessarily represent future cash requirements, as many of these commitments may expire or terminate without needing to be funded. In addition to guarantees and letters of credit, as of 31 December 2012, the Group had a total of GEL 140.0 million (US$84.5 million) undrawn loan facilities to various borrowers. However, the borrowers mostly need to comply with various conditions precedent in respect of most of their undrawn credit facilities and, at its own discretion, the Group can choose not to disburse most of these undrawn credit facilities upon the borrowers' request.

Net financial commitments and contingencies of the Group as of 31 December 2012, 2011 and 2010 were GEL 733.0 million (US$442.4 million), GEL 694.8 million and GEL 612.9 million, respectively. Net financial commitments and contingencies increased by 5.5% between 31 December 2011 and 31 December 2012 due to an increase in guarantees and letters of credit. Net financial commitments and contingencies increased by 13.4% between 31 December 2010 and 31 December 2011 due to an increase in the portfolio of guarantees and letters of credit, following the macroeconomic growth in Georgia and further improvement of the business and operating environment for both the corporate and retail banking businesses. The increase was partially offset by the GEL 17.7 million decline in undrawn credit commitments.

Capital Expenditure Commitments

As of 31 December 2012, the Group's capital expenditure commitments comprised the commitment for purchase of property and capital repairs of GEL 0.9 million and software and other intangible assets of GEL 2.1 million. As of 31 December 2011, the Group's capital expenditure comprised the commitment for purchase of property and capital repairs of GEL 41.1 million and software and other intangible assets of GEL 6.8 million. As of 31 December 2010, the Group's capital expenditure comprised the commitment for purchase of property and capital repairs of GEL 32.3 million and software and other intangible assets of GEL 7.2 million.

Maturity Analysis of the Group's Financial Assets and Liabilities

The tables below show analysis of financial assets and liabilities according to when they are expected to be recovered or settled:

	As of 30 June 2013			As of 31 December 2012		
	Within one year	More than one year	Total	Within one year	More than one year	Total
		(unaudited)			*(audited)*	
			(thousands of Lari)			
Financial assets						
Cash and cash equivalents	538,285	—	538,285	750,517	—	750,517
Amounts due from credit institutions	315,972	10,565	326,537	381,361	15,198	396,559
Investment securities available–for–sale[1]	591,746	135,407	727,153	400,687	134,011	534,698
Loans to customers, net	1,584,184	1,523,804	3,107,988	1,543,963	1,489,704	3,033,667
Finance lease receivables	15,546	11,686	27,232	25,127	46,559	71,686
Total	**3,045,733**	**1,681,462**	**4,727,195**	**3,101,655**	**1,685,472**	**4,787,127**
Financial liabilities						
Amounts due to customers	2,599,673	253,099	2,852,772	2,361,886	331,139	2,693,025
Amounts due to credit institutions	531,072	944,614	1,475,686	689,975	967,187	1,657,162
Total	**3,130,745**	**1,197,713**	**4,328,458**	**3,051,861**	**1,298,326**	**4,350,187**
Net	**(85,012)**	**483,749**	**398,737**	**49,794**	**387,146**	**436,940**

Note:

(1) The Bank can obtain a loan(s) from the NBG at any time for an amount equal to 95% of the then current market value of the treasury securities and certificates of deposit it holds if it pledges the relevant treasury securities and certificates of deposit as security for such loan(s).

	As of 31 December 2011			As of 31 December 2010		
	Within one year	More than one year	Total	Within one year	More than one year	Total
			(audited)			
			(thousands of Lari)			
Financial assets						
Cash and cash equivalents	628,731	—	628,731	611,584	—	611,584
Amounts due from credit institutions	277,448	12,082	289,530	107,707	8,762	116,469
Investment securities[1]:				—	—	—
– available–for–sale	340,179	79,397	419,576	242,535	52,405	294,940
– held–to–maturity	—	—	—	21	—	21
Loans to customers, net	1,231,077	1,322,365	2,553,442	1,191,914	1,159,783	2,351,697
Finance lease receivables	16,767	46,152	62,919	8,828	5,591	14,419
Total	**2,494,202**	**1,459,996**	**3,954,198**	**2,162,589**	**1,226,541**	**3,389,130**
Financial liabilities						
Amounts due to customers	2,536,761	198,461	2,735,222	1,881,371	144,937	2,026,308
Amounts due to credit institutions	265,121	656,051	921,172	193,386	945,541	1,138,927
Total	**2,801,882**	**854,512**	**3,656,394**	**2,074,757**	**1,090,478**	**3,165,235**
Net	**(307,680)**	**605,484**	**297,804**	**87,832**	**136,063**	**223,895**

Note:

(1) The Bank can obtain a loan(s) from the NBG at any time for an amount equal to 95% of the then current market value of the treasury securities and certificates of deposit it holds if it pledges the relevant treasury securities and certificates of deposit as security for such loan(s).

The Group's ability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. In the Georgian marketplace, some 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.

The Group's principal sources of liquidity are deposits, borrowings from international credit institutions, inter-bank deposit agreements, debt issues, proceeds from sale of securities, principal repayments on loans, interest income and fees and commissions income.

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2012, 2011 and 2010 based on contractual undiscounted repayment 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.

Financial Liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
			(audited) *(thousands of Lari)*		
As of 31 December 2012					
Amounts due to customers	1,759,707	638,935	371,691	33,548	2,803,881
Amounts due to credit institutions	465,376	221,460	1,108,551	177,950	1,973,337
Other liabilities	27,565	76,982	9,356	–	113,903
Total undiscounted financial liabilities	**2,252,648**	**937,377**	**1,489,598**	**211,498**	**4,891,121**
As of 31 December 2011					
Amounts due to customers	1,908,942	654,219	236,243	13,543	2,812,947
Amounts due to credit institutions	195,670	122,709	499,370	434,038	1,251,787
Other liabilities	26,926	53,099	19,783	—	99,808
Total undiscounted financial liabilities	**2,131,538**	**830,027**	**755,396**	**447,581**	**4,164,542**
As of 31 December 2010					
Amounts due to customers	1,394,442	528,346	153,963	8,859	2,085,610
Amounts due to credit institutions	151,404	145,753	780,504	530,547	1,608,208
Other liabilities	8,049	33,571	15,649	4,949	62,218
Total undiscounted financial liabilities	**1,553,895**	**707,670**	**950,116**	**544,355**	**3,756,036**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies as of the dates indicated:

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
			(audited) *(thousands of Lari)*		
As of 31 December 2012	337,465	177,907	236,948	12,846	765,166
As of 31 December 2011	335,550	267,617	103,870	12,978	720,015
As of 31 December 2010	245,684	290,662	76,464	24,816	637,626

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Capital Adequacy

The Group complies with the Basel I capital adequacy requirements established by the Bank of International Settlements. Basel I provides for a minimum capital adequacy ratio of 8%.

The Bank is required to comply with the NBG's capital adequacy requirements. See "*Regulation of the Georgian Banking Sector—Mandatory Financial Ratios*".

As the NBG requires the Bank to calculate its capital adequacy in accordance with the NBG's methodology, the tables below are presented for the Bank on a standalone basis calculated in accordance with NBG Standards:

	As of 30 June		**As of 31 December**
	2013		**2012**
	(unaudited)		*(audited)*
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(thousands of Lari)*
Ordinary shares	21,835	36,049	36,049
Additional paid-in capital	339,569	560,628	555,903
Retained earnings	161,179	266,106	188,749
Intangible assets	(25,560)	(42,200)	(40,821)
Tier I capital	**497,023**	**820,583**	**739,880**
Current year profit (loss)	35,896	59,265	134,349
General loan loss provisions	38,507	63,575	63,827
Subordinated debt	115,590	190,839	191,509
Tier II capital	**189,993**	**313,679**	**389,685**
Deductions from capital	(161,012)	(265,830)	(262,615)
Total capital	**526,004**	**868,432**	**866,950**
Risk-weighted assets	**3,218,026**	**5,312,961**	**5,352,187**
Capital adequacy ratios			
Tier I ratio	**15.4%**	**15.4%**	**13.8%**
Total capital ratio	**16.3%**	**16.3%**	**16.2%**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

The following tables set out analysis of the Group's regulatory capital on a consolidated basis under Basel I as of the dates indicated:

	As of 30 June		As of 31 December
	2013		2012
	(unaudited)		*(audited)*
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(thousands of Lari)*
Ordinary shares	22,116	36,513	36,513
Additional paid-in capital	364,804	602,291	615,627
Retained earnings	270,987	447,400	408,538
Tier I capital	**657,907**	**1,086,204**	**1,060,678**
General loan loss provisions	36,365	60,038	59,824
Revaluation reserves	27,337	45,134	25,821
Subordinated debt	127,497	210,498	211,591
Tier II capital	**191,199**	**315,670**	**297,236**
Deductions from capital	(27,935)	(46,121)	(46,121)
Total capital	**821,171**	**1,355,753**	**1,311,793**
Risk-weighted assets	**2,909,183**	**4,803,061**	**4,785,870**
Capital adequacy ratios			
Tier I ratio	**22.6%**	**22.6%**	**22.2%**
Total capital ratio	**28.2%**	**28.2%**	**27.4%**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

	As of 31 December			
	2012		2011	2010
	(audited)			
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Ordinary shares	21,756	36,049	29,731	29,970
Additional paid-in capital	335,488	555,903	460,737	466,895
Retained earnings	113,910	188,749	62,836	37,054
Intangible assets	(24,635)	(40,821)	(41,067)	(39,791)
Tier I capital	**446,519**	**739,880**	**512,237**	**494,128**
Current year profit (loss)	81,080	134,349	152,835	133,737
General loan loss provisions	38,520	63,827	54,872	42,588
Subordinated debt	115,576	191,509	256,119	247,064
Tier II capital	**235,176**	**389,685**	**463,826**	**423,389**
Deductions from capital	(158,488)	(262,615)	(184,323)	(367,418)
Total capital	**523,207**	**866,950**	**791,740**	**550,099**
Risk-weighted assets	**3,230,046**	**5,352,187**	**4,872,931**	**3,800,624**
Capital adequacy ratios				
Tier I ratio	**13.8%**	**13.8%**	**10.5%**	**13.0%**
Total capital ratio	**16.2%**	**16.2%**	**16.2%**	**14.5%**

Note:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

There are several differences between the NBG capital adequacy ratio methodology and the Basel I capital adequacy ratio methodology. The most significant of such differences include: (i) for purposes of calculating the NBG ratio, a 175% total risk weighting (including both credit risk and market risk) is applied to loans denominated in foreign currency, unless the borrower's principal source of income is from exports (the 175% risk weighting requirement was raised by the NBG starting from January 2011[1]); (ii) for purposes of calculating the NBG ratio, investments, except for ownership interests of 50% or more in subsidiaries, are weighted at 100% whereas, under Basel I methodology, investments in financial services companies are weighted at 0% and other investments are weighted at 100%; (iii) as the NBG requires Georgian banks to calculate regulatory capital on a standalone basis, all investments in subsidiaries where the bank holds more than

1 Until 1 August 2009, the 175% foreign currency risk weighting requirement applied to loans denominated in foreign currency, unless the borrower's principal source of income was from exports. Based on an amendment to the FSA Order No. 9 of 30 September 2008, such requirement was reduced to 150% effective 1 August 2009. From 1 January 2011, the risk weighting requirement increased back up to 175% following the NBG notifying commercial banks of the increase in writing. No relevant amendments were made to the FSA Order No. 9 of 30 September 2008.

a 50% equity interest are deducted from Total capital; (iv) the revaluation reserve is included in total capital for purposes of the Basel I ratio but not for purposes of the NBG ratio; and (v) the retained earnings and current year profit (loss) included in the NBG capital adequacy ratio are based on NBG accounting rules (the main difference between these accounting rules and IFRS being the provisions for loan losses and other credit risks), while the retained earnings included in the Basel I capital adequacy ratio are based on IFRS. Risk-weighted assets, Tier I capital and total regulatory capital calculated in accordance with the NBG's methodology were GEL 5.4 billion (US$3.2 billion), GEL 0.7 million (US$0.4 million) and GEL 0.9 billion (US$0.5 billion), respectively, as of 31 December 2012.

The NBG requires Georgian banks to maintain a total capital adequacy ratio of 12.0% and a Tier I capital adequacy ratio of 8.0% on a stand-alone basis. As of 31 December 2012, on a stand-alone basis the Bank's total capital adequacy ratio calculated in accordance with the NBG's methodology was 16.2%, and the Bank's Tier I capital adequacy ratio was 13.8%. Although in the past the Bank's "investments to equity" and "investment plus fixed assets to equity financial ratios" have been below the level set by the NBG, the NBG confirmed on 31 December 2009 that it would not impose any sanctions on the Bank, and the Bank has been in compliance with both financial ratios since February 2011. Further, on 31 October 2012, the Bank obtained a waiver from the NBG with respect to the proposed increase of the limit of aggregate lending to certain borrowers which were treated by the NBG as a single borrower up to 21% of the Bank's regulatory capital, subject to a maximum of US$110 million. Since then, the Bank has not been in breach of any capital adequacy ratios.

A subsidiary of the Group, BNB, is licensed by the NBRB and is required to comply with certain capital adequacy ratios and minimum share capital requirements set by the NBRB. Although BNB has the minimum level of regulatory capital required by NBRB to conduct banking operations in Belarus (the minimum level for this purpose is set at the equivalent of €25 million and, as of 31 December 2012, the regulatory capital of BNB was €17.3 million), BNB has not had the minimum level of regulatory capital required by NBRB in order to hold retail deposits (set at the equivalent of €25 million for this purpose) since May 2011. BNB has received a temporary waiver effective until 1 January 2014 in respect of this breach. The Group is currently considering obtaining subordinated funding, or other sources of funding, to enable BNB to meet the minimum level of regulatory capital required for retail deposit taking. If such funding is not available on commercially attractive terms, BNB may choose to discontinue its retail deposit taking business in Belarus (which the BGH Directors do not consider to be material, given that BNB's retail customer deposits accounted for 2.6% of the Group's total customer deposits and 1.5% of total liabilities as of 31 December 2012). See "*Risk Factors—Additional Risks Arising Principally from the Group's Banking Activities—The Group is subject to certain regulatory ratios*" and "*Risk Factors—Risks Relating to the Group's Lending Activities—Currency fluctuations have affected, and may continue to affect, the Group*".

Selected Significant Accounting Policies, Judgments and Estimates

The notes to the Financial Statements, appearing elsewhere in this Prospectus, contain an overview of the Group's selected significant accounting policies, including a discussion of changes in accounting policies resulting from adoption of new or revised standards. These policies, as well as estimates and judgments made by the Group's management, are integral to the presentation of the Group's consolidated statement of financial position and income statement. It is important to note that these accounting policies in certain cases require management to make difficult, complex or subjective estimates and judgments, often regarding matters that are inherently uncertain. On an ongoing basis, the Group's management evaluates its estimates and judgments, including those related to allowance for impairment of financial assets, acquisition of subsidiaries, goodwill, income taxes, valuation of investment securities, de-recognition of financial assets and liabilities, insurance contract liabilities and other provisions. The Group's management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions. The most significant use of judgments and estimates are summarised below.

Adoption of new or revised standards and interpretations

The Group has adopted the following amended IFRS in 2012:

Amendments to IFRS 7 "Financial Instruments: Disclosures"

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the users of the Group's financial statements to evaluate the risk exposures relating to those assets. The amendment has no impact on the Group's disclosures, financial position or performance.

Other amendments resulting from Improvements to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter.

The Group has also introduced the following changes due to adoption/early adoption of new and/or revised standards and interpretations as of 1 January 2013:

- *IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1;*
- *IAS 1 Clarification of the requirement for comparative information (Amendment);*
- *IAS 32 Tax effects of distributions to holders of equity instruments (Amendment);*
- *IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)*
- *IAS 19 Employee Benefits (Revised 2011) (IAS 19R);*
- *IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements;*
- *IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures;*
- *IFRS 12 Disclosure of Interests in Other Entities;* and
- *IFRS 13 Fair Value Measurement.*

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operating and financial activities, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date, that is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Determination of fair value

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for long positions and ask price for short positions at the close of business on the reporting date, without any deduction for transaction costs.

For all other financial instruments where there is no active market, fair value is determined using valuation techniques. Valuation techniques include using recent arm's length market transactions, which are determined not to be a result of a forced transaction, involuntary liquidation or distress sale, reference to the current market value of similar instrument, discounted cash flow analysis and other relevant valuation models.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from central banks, excluding obligatory reserves with central banks, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as gains less losses from interest rate swaps and gains less losses from foreign currencies translation differences, depending on the nature of the instrument.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of each or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers (including promissory notes issued). These are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Subordinated debt

Subordinated debt represents long-term funds attracted by the Bank on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment on debt in case of the Bank liquidation. Subordinated debt is carried at amortised cost.

Leases

Finance – Group as lessor

The Group recognises finance lease receivables in the consolidated statement of financial position at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the finance lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other administrative and operating expenses.

Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Write-off of loans to customers

All retail loans, except mortgages, are written off when overdue by more than 365 days. Retail mortgage loans are written off when overdue by more than 150 days. Write off of corporate loans overdue by more than 150 days is subject to management discretion and is evaluated on a case by case basis, taking into account the current and expected positions of the loan/borrower.

Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Renegotiated loans

Renegotiated loans comprise carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.
The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognises the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In cases where the loan is not impaired after restructuring, the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories that the Bank and its Subsidiaries operate.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia, Ukraine, Belarus and Cyprus also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Investment properties

The Group holds certain properties as investments to earn rental income, generate capital appreciation or both. Investment properties are measured initially at cost, including subsequent costs. Subsequent to initial recognition, Investment properties is stated to fair value. Gains or losses arising from changes in fair values of investment properties are included in the consolidated income statement as "Net gains from revaluation of investment properties".

Property and equipment

Property and equipment, except for buildings, is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the devalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset, including assets under construction, commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	Up to 100
Furniture and fixtures	10
Computers and office equipment	5
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Leasehold improvements are amortised over the life of the related leased asset.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 "Operating Segments".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of income.

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

Insurance liabilities

General insurance liabilities

General insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, environmental and pollution exposures – therefore the ultimate cost of which cannot be known with certainty at the reporting date.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated income statement in order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the consolidated income statement by establishing an unexpired risk provision.

Share-based payment transactions

Employees (including senior executives) of the Group receive share-based remuneration, whereby employees render services as consideration for the equity instruments ('equity settled transactions').

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity settled transactions is recognised together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions (a condition linked to the price of BGH's shares) which are treated as vesting irrespective whether the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank or its subsidiaries purchase the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Income and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission incomes and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

Insurance premium income

For non-life insurance business, premiums written are recognised at policy inception and earned on a pro rata basis over the term of the related policy coverage. Estimates of premiums written as at the reporting date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

Insurance claims

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Healthcare revenue

Healthcare revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured on an accruals basis. When services are provided in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalent transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods of services given up, adjusted by the amount of any cash or cash equivalents transferred.

Revenue from sale of goods

Revenue from sale of goods comprises revenue from sale of a completed property and other finished goods.

Revenue from sale of a completed property is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer. If, however, the legal terms of the contract are such that the construction represents the continuous transfer of work in progress to the purchaser, the percentage of completion method of revenue recognition is applied and revenue is recognised as work progresses.

Revenue from the sale of other finished goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Continuous transfer of work in progress is applied when: (a) the buyer controls the work in progress, typically when the land on which the development is taking place is owned by the final customer and (b) all significant risks and rewards of ownership of the work in progress in its present state are transferred to the buyer as construction progresses, typically when buyer cannot put the incomplete property back to the Group. In such situations, the percentage of work completed is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

Functional, reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency. The Bank's functional currency is US Dollar. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing).

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Hyperinflation accounting

With effect from 1 January 2011, the Belarusian economy has been considered to be hyperinflationary in accordance with the criteria in IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

In applying IAS 29, the Bank's subsidiaries in Belarus, JSC Belarusky Narodny Bank ("BNB") and BNB Leasing, LLC, have used conversion factors derived from the Belarusian consumer price index ("CPI"), published by the State Committee on Statistics of the Republic of Belarus.

All income and expenses, profits and losses are recalculated by applying the relevant adjustment factors. Monetary assets and liabilities are not recalculated because they are already expressed in terms of the monetary unit current as at the reporting date. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current as at the reporting date) are recalculated by applying the relevant index. The effect of inflation on BNB's net non-monetary position is included in the income statement in net non-operating expenses.

Significant judgment and estimates

In the process of applying the Group's accounting policies, the supervisory board members and management use their judgment and make estimates in determining the amounts recognised in the consolidated financial statements. The most significant judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Measurement of fair value of investment properties and property and equipment

The fair value of investment properties and buildings included in property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalisation method (also known as discounted future cash flow method) and the sales comparison method.

The estimates described above are subject to change as new transaction data and market evidence become available.

Allowance for impairment of loans and receivables and finance lease receivables

The Group regularly reviews its loans and receivables and finance lease receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the 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 group of loans and receivables. The Group uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

The Group considers the fair value of collateral when estimating the amount of impairment loss for collateralized loans and receivables and finance lease receivables. Management monitors market value of collateral on a regular basis. Management uses its experienced judgment or independent opinion to adjust the fair value to reflect current circumstances. The amount and type of collateral required depends on the assessment of credit risk of the counterparty.

In order to exclude extraordinary trends arising from the 2008 Conflict and the global financial crisis from the assessment of collective impairment of loans, the Bank amended its approach in 2012. Namely, the historical loss rates that are applied for collective impairment are now calculated based on three-year history of net losses (including reversals) as opposed to five-seven-year history of net losses under previous approach. The impact of this change on profit from continuing operations before income tax expense for the year ended 31 December 2012 is GEL 20.1 million.

SELECTED STATISTICAL AND OTHER INFORMATION

Certain information included in this section has been extracted without material adjustment from the Audited Financial Statements included elsewhere in this Prospectus. Prospective investors should read this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Audited Financial Statements. Certain other information included in this section has been extracted from the Group's management accounts and is unaudited.

The Bank's Weighted Average Effective Interest Rates

The following table (extracted from the Bank's stand-alone management accounts) represents the Bank's stand-alone weighted average effective annual interest rates, analysed by currencies of denomination, for the Bank's principal stand-alone categories of interest-earning assets and interest-bearing liabilities, for the periods indicated. The weighted average effective interest rate for each financial asset or financial liability in the table below is: the Bank's stand-alone interest income or expense, as applicable, for the applicable period in the relevant currency divided by the Bank's stand-alone average daily outstanding balance of the financial asset or financial liability, and for interim periods only, then divided by the actual number of days in the interim period multiplied by 365.

	As of 30 June			
	2013		2012	
	GEL	Foreign currencies	GEL	Foreign currencies
	(unaudited) *(in percentages)*			
Assets				
Amounts due from credit institutions	5.3%	1.0%	10.5%	1.0%
Investment securities - available-for-sale	6.7%	—	9.1%	—
Loans to customers	22.5%	13.5%	24.1%	14.4%
Liabilities				
Amounts due to credit institutions	4.1%	7.1%	6.0%	8.6%
Amounts due to customers	5.8%	6.4%	8.6%	7.0%

	As of 31 December					
	2012		2011		2010	
	GEL	Foreign currencies	GEL	Foreign currencies	GEL	Foreign currencies
	(unaudited) *(in percentages)*					
Assets						
Amounts due from credit institutions	9.1%	0.8%	14.4%	0.9%	7.4%	1.1%
Investment securities						
- held to maturity	—	—	—	—	8.0%	—
- available-for-sale	8.6%	—	10.4%	—	8.0%	—
Loans to customers	24.1%	13.9%	23.8%	14.9%	24.1%	17.5%
Liabilities						
Amounts due to credit institutions	5.0%	7.5%	7.6%	8.6%	6.4%	9.3%
Amounts due to customers	7.7%	6.9%	8.3%	7.5%	6.3%	7.9%

Average Balance Sheets and Yield Rates

The following table (extracted from the Group's consolidated management accounts) shows the Group's consolidated average balances for interest-earning assets and interest-bearing liabilities together with the related interest income and expense amounts, resulting in the presentation of yield rates for the periods indicated. Average balances are based on the Group's consolidated quarterly balances (as of the end of each quarter) during the period, from the beginning of the period to its end.

	For the six months ended 30 June					
	2013			2012		
	Average Balance	**Interest Income (Expense)**	**Yield Rate**	**Average Balance**	**Interest Income (Expense)**	**Yield Rate**
	(amounts in thousands of Lari, except percentages) (unaudited)					
Average assets:						
Loans and advances to credit institutions(1)	777,294	4,945	1.3%	627,552	9,624	3.1%
Investment securities(2) (interest-earning)	533,644	17,642	6.7%	387,169	17,806	9.2%
Loans to customers and finance lease receivables, gross	3,183,206			2,867,782		
Less: reserve for loan and finance lease receivables losses	(114,002)			(116,698)		
Loans to customers and finance lease receivables, net	3,069,204	263,255	17.3%	2,751,084	249,098	18.2%
Total average interest-earning assets	**4,380,142**	**285,842**	**13.2%**	**3,765,805**	**276,528**	**14.8%**
Cash on hand	238,471			131,858		
Investment securities (non interest-earning)	72,263			59,082		
All other assets	997,325			780,255		
Total average assets	**5,688,201**			**4,737,000**		
Average liabilities:						
Amounts owed to customers	2,787,824	85,538	6.2%	2,735,143	103,765	7.6%
Amounts due to credit institutions(3)	1,495,958	49,810	6.7%	850,307	35,100	8.3%
Total average interest-bearing liabilities	**4,283,782**	**135,348**	**6.4%**	**3,585,450**	**138,865**	**7.8%**
All other liabilities	248,608			196,491		
Total average liabilities	**4,532,390**			**3,781,941**		
Average equity:						
Equity attributable to shareholders of the Bank	1,108,488			913,611		
Non-controlling interest	47,323			41,448		
Total average equity	**1,155,811**			**955,059**		
Total average liabilities and equity	**5,688,201**			**4,737,000**		

	For the year ended 31 December								
	2012			2011			2010		
	Average Balance	**Interest Income (Expense)**	**Yield Rate**	**Average Balance**	**Interest Income (Expense)**	**Yield Rate**	**Average Balance**	**Interest Income (Expense)**	**Yield Rate**
	(amounts in thousands of Lari, except percentages) (unaudited)								
Average assets:									
Loans and advances to credit institutions(1)	710,545	15,813	2.2%	612,062	18,103	3.0%	377,967	9,795	2.6%
Investment securities(2) (interest-earning)	397,868	33,950	8.5%	362,770	37,701	10.4%	274,049	19,785	7.2%
Loans to customers and finance lease receivables, gross	2,998,140			*2,576,009*			*2,151,903*		
Less: reserve for loan and finance lease receivables losses	(113,741)			*(131,009)*			*(183,812)*		
Loans to customers and finance lease receivables, net	2,884,399	518,040	18.0%	2,445,000	445,554	18.2%	1,968,091	393,561	20.0%
Total average interest-earning assets	**3,992,812**	**567,803**	**14.2%**	**3,419,832**	**501,358**	**14.7%**	**2,620,107**	**423,141**	**16.1%**
Cash on hand	204,945			164,720			165,389		
Investment securities (non interest-earning)	62,538			11,687			15,614		
All other assets	843,537			644,194			593,913		
Total average assets	**5,103,832**			**4,240,433**			**3,395,023**		
Average liabilities:									
Amounts owed to customers	2,738,850	202,484	7.4%	2,155,241	(167,294)	7.8%	1,559,283	(114,968)	7.4%
Amounts due to credit institutions(3)	1,132,157	81,202	7.2%	1,056,634	(99,763)	9.4%	1,061,829	(91,829)	8.6%
Total average interest-bearing liabilities	**3,871,007**	**283,686**	**7.3%**	**3,211,875**	**(267,057)**	**8.0%**	**2,621,112**	**(206,797)**	**7.9%**
All other liabilities	221,630			274,369			129,497		
Total average liabilities	**4,092,637**			**3,486,244**			**2,750,609**		
Average equity:									
Equity attributable to shareholders of the Bank	969,110			724,994			620,286		
Non-controlling interest	42,085			29,195			24,128		
Total average equity	**1,011,195**			**754,189**			**644,414**		
Total average liabilities and equity	**5,103,832**			**4,240,433**			**3,395,023**		

Notes:

(1) Comprises amounts due from credit institutions and cash and cash equivalents, excluding cash on hand.

(2) Comprises held-to-maturity investments securities and those available-for-sale investments securities that are debt securities (*i.e.*, interest-bearing securities) only. Includes: treasury bills, central bank certificates of deposits, government bonds, corporate bonds and similar.

(3) Comprises deposits and loans from banks (including NBG loans), borrowings from international credit institutions, Eurobonds and subordinated debt.

Loan Portfolio

As of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, the Group had GEL 3,108.0 million, GEL 3,033.7 million, GEL 2,553.4 million and GEL 2,351.7 million, respectively, in loans to customers (net of allowance for impairment losses), representing 54.0%, 53.0%, 54.7% and 58.7% of the Group's total assets, respectively. The period-on-period increases between 31 December 2011, 31 December 2012 and 30 June 2013 were primarily due to the growth in both the retail banking and corporate banking loan portfolios. For further information on the Group's total loans to customers during the periods under review, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting the Group's Financial Statements—Changes in the Loan Portfolio*".

Loans to Customers by Type of Customer

The following table sets out the Group's consolidated total loans to customers (gross of allowance for impairment losses) by type of customer as of the dates indicated.

	As of 30 June		As of 31 December			
	2012		2012		2011	2010
	(unaudited)		*(audited)*			
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(thousands of US dollars)*[(2)]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Individuals	781,495	1,290,249	744,486	1,233,614	1,132,740	1,006,046
Private entities	1,118,761	1,847,074	1,083,957	1,796,116	1,492,124	1,488,577
State entities	53,051	87,587	68,783	113,974	43,275	32,610
Total loans to customers, gross	**1,953,307**	**3,224,910**	**1,897,226**	**3,143,704**	**2,668,139**	**2,527,233**

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

Of the Group's total loans to customers, 40.0%, 39.2%, 42.5% and 39.8% represented loans to individuals as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively, 57.3%, 57.1%, 55.9% and 58.9% represented loans to private entities as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively, and 2.7%, 3.7%, 1.6% and 1.3% represented loans to state entities as of 30 June 2013, 31 December 2012, 2011 and 2010, respectively.

Distribution of Loans by Category of Loan

The following table sets out information on the Group's consolidated loans to customers by category of loan for the periods indicated.

	As of 30 June	As of 31 December		
	2013	2012	2011	2010
	(amounts in thousands of Lari) (unaudited)	*(amounts in thousands of Lari) (audited)*		
Gross loans to customers, by products:				
Commercial loans	1,670,624	1,677,624	1,363,058	1,424,550
Consumer loans	616,907	591,968	516,733	383,615
Residential mortgage loans	395,764	398,114	390,997	409,786
Micro and SME loans	468,187	400,553	318,566	238,462
Gold – pawn loans	73,428	75,445	78,785	66,749
Others	—	—	—	4,071
Total loans to customers, gross	**3,224,910**	**3,143,704**	**2,668,139**	**2,527,233**
Loan loss reserves, by products:				
Commercial loans	(84,449)	(78,198)	(70,106)	(114,499)
Consumer loans	(25,152)	(20,249)	(28,997)	(31,873)
Residential mortgage loans	(3,834)	(9,713)	(10,027)	(22,424)
Micro and SME loans	(3,487)	(1,877)	(5,567)	(5,951)
Others	—	—	—	(789)
Total loan loss reserves	**(116,922)**	**(110,037)**	**(114,697)**	**(175,536)**
Net loans to customers, by products:				
Commercial loans	1,586,175	1,599,426	1,292,952	1,310,051
Consumer loans	591,755	571,719	487,736	351,742
Residential mortgage loans	391,930	388,401	380,970	387,362
Micro and SME loans	464,700	398,676	312,999	232,511
Gold – pawn loans	73,428	75,445	78,785	66,749
Others	—	—	—	3,282
Total loans to customers, net	**3,107,988**	**3,033,667**	**2,553,442**	**2,351,697**

Of the Group's total loans to customers, 51.8%, 53.4%, 51.0% and 56.4% represented commercial loans as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively; 19.1%, 18.8%, 19.4% and 15.2% represented consumer loans as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively; 12.3%, 12.7%, 14.7% and 16.2% represented residential mortgage loans as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively; 14.5%, 12.7%, 11.9% and 9.4% represented Micro and SME loans as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively; and 2.3%, 2.4%, 3.0% and 2.6% represented Gold - pawn loans as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively.

The Group's total loan loss reserves increased by GEL 6.9 million, or 6.3%, as at 30 June 2013, as compared to 31 December 2012, having decreased by GEL 4.7 million, or 4.1%, from 31 December 2011 and 2012, and by GEL 60.8 million, or 34.7%, from 31 December 2010. The year-on-year decreases between 2010, 2011 and 2012 were primarily due to improvement in the overall quality of loans, in line with trends among Georgian banks in 2011. Of the Group's total loan loss reserves 72.3%, 71.0%, 61.1% and 65.2% and represented reserves for commercial loans as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively; 21.5%, 18.4%, 25.3% and 18.2% represented reserves for consumer loans as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively; 3.3%, 8.8%, 8.7% and 12.8% represented reserves for residential mortgage loans as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively; and 3.0%, 1.8%, 4.9% and 3.4% represented reserves for micro loans as of 30 June 2013, 31 December 2012, 2011 and 2010, respectively.

Loans by Economic Sector

The following table sets out the Group's consolidated loans to customers (gross of allowance for impairment losses), by economic sector as of the dates indicated.

	As of 30 June		As of 31 December					
	2013		2012		2011		2010	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(unaudited) *(thousands of Lari, except percentages)*		*(audited)* *(thousands of Lari, except percentages)*					
Individuals	1,290,249	40.0%	1,233,614	39.2%	1,132,740	42.5%	1,006,046	39.8%
Trade and services	1,117,959	34.7%	1,053,579	33.5%	972,290	36.4%	858,878	34.0%
Mining	286,604	8.9%	347,505	11.1%	122,771	4.6%	137,583	5.4%
Construction and development	238,163	7.4%	218,103	6.9%	228,412	8.6%	274,623	10.9%
Agriculture	84,950	2.6%	94,286	3.0%	8,709	0.3%	18,089	0.7%
Transport and communication	91,693	2.8%	93,028	3.0%	83,289	3.1%	77,792	3.1%
Energy	26,851	0.8%	28,296	0.9%	65,360	2.4%	62,424	2.5%
Other[1]	88,441	2.8%	75,293	2.4%	54,568	2.1%	91,798	3.6%
Total loans to customers, gross	**3,224,910**	**100.0%**	**3,143,704**	**100.0%**	**2,668,139**	**100.0%**	**2,527,233**	**100.0%**

Note:

(1) Other comprises loans to customers with diverse business activities not directly attributable to a specific economic sector.

The Group's loans to customers in the trade and services sector increased by GEL 64.4 million, or 6.1%, between 31 December 2012 and 30 June 2013, having increased by GEL 81.3 million, or 8.4%, between 31 December 2011 and 31 December 2012 and by GEL 113.4 million, or 13.2%, between 31 December 2010 and 31 December 2011. The Group's loans to individual customers increased by GEL 56.6 million, or 4.6%, between 31 December 2012 and 30 June 2013, having increased by GEL 100.9 million, or 8.9%, between 2011 and 2012 and increased by GEL 126.7 million, or 12.6%, between 2010 and 2011. The Group's loans to customers in the construction and development sector increased by GEL 20.1 million, or 9.2%, between 31 December 2012 and 30 June 2013, decreased by GEL 10.3 million, or 4.5%, between 2011 and 2012 and decreased by GEL 46.2 million, or 16.8%, between 2010 and 2011. The Group's loans to customers in the transport and communication sector decreased by GEL 1.3 million, or 1.4%, between 31 December 2012 and 30 June 2013, increased by GEL 9.7 million, or 11.7%, between 2011 and 2012 and increased by GEL 5.5 million, or 7.1%, between 2010 and 2011. The Group's loans to customers in the mining sector decreased by GEL 60.9 million, or 17.5%, between 31 December 2012 and 30 June 2013, increased by GEL 224.7 million, or 183.1%, between 2011 and 2012 and decreased by GEL 14.8 million, or 10.8%, between 2010 and 2011. The Group's loans to customers in the agriculture sector decreased by GEL 9.3 million, or 9.9%, between 31 December 2012 and 30 June 2013, increased by GEL 85.6 million, or 982.6%, between 2011 and 2012 and decreased by GEL 9.4 million, or 51.9%, between 2010 and 2011. The Group's loans to customers in the energy sector decreased by GEL 1.4 million, or 5.1%, between 31 December 2012 and 30 June 2013, decreased by GEL 37.1 million, or 56.7%, between 2011 and 2012 and increased by GEL 2.9 million, or 4.7%, between 2010 and 2011. The Group's loans to customers in other sectors increased by GEL 13.1 million, or 17.5%, between 31 December 2012 and 30 June 2013, increased by GEL 20.7 million, or 38.0%, between 2011 and 2012 and decreased by GEL 37.2 million, or 40.6%, between 2010 and 2011. In general, increases in loans to customers between 31 December 2012 and 30 June 2013 were mainly driven by the increase in loans to individuals and in loans to customers in the trade and services sector. The increases in loans to customers between 2011 and 2012 were mainly driven by the increases in loans to customers in transport and communication sectors and loans to individuals. The increases in loans to customers between 2010 and 2011 were mainly driven by loans to individuals and loans to customers in the trade and services sectors, reflecting growth in the Georgian economy in 2011.

Collateralisation

The following table (extracted from the Group's consolidated management accounts) sets out the Group's consolidated loans to customers (gross of allowance for impairment losses) which are collateralised and unsecured, indicating the type of collateral where appropriate, as of the dates indicated.

	As of 30 June		As of 31 December			
	2013		2012		2011	2010
			(unaudited)			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of US dollars)[2]*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Loans secured by pledge of real estate	939,528	1,551,161	876,444	1,452,267	1,341,620	1,260,638
Loans secured by corporate guarantees	159,945	264,069	173,442	287,393	327,449	446,961
Loans secured by pledge of deposits & securities	135,253	223,302	122,596	203,141	87,680	85,790
Loans secured by pledge of gold	45,247	74,703	46,374	76,841	79,774	65,885
Loans collateralised by pledge of transport	79,669	131,533	85,629	141,887	61,916	46,625
Loans collateralised by pledge of inventory	45,725	75,492	21,444	35,533	35,312	41,739
Other collateralised loans[3]	249,481	411,893	285,762	473,508	331,502	319,564
Unsecured loans	298,459	492,757	285,535	473,134	402,886	260,031
Total loans to customers, gross	**1,953,307**	**3,224,910**	**1,897,226**	**3,143,704**	**2,668,139**	**2,527,233**

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

(3) Other collateralised loans comprise loans to customers collateralised by machinery and equipment and other types of collateral.

Of the Group's consolidated loans to customers, 48.1%, 46.2%, 50.3% and 49.9% represented loans secured by pledges over real estate as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively; 8.2%, 9.1%, 12.3% and 17.7% represented loans secured by corporate guarantees as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively The decrease reflected the growth of the unsecured consumer lending in the Bank's loan book. 6.9%, 6.5%, 3.3% and 3.4% represented loans secured by pledges over deposits and securities as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively; 2.3%, 2.4%, 3.0% and 2.6% represented loans secured by pledges over gold as of each of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010; 4.1%, 4.5%, 2.3% and 1.8% represented loans collateralised by pledges over transport as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively; 2.3%, 1.1%, 1.3% and 1.7% represented loans collateralised by pledges over inventory as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively; 12.8%, 15.1%, 12.4% and 12.6% represented other collateralised loans as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively; and 15.3%, 15.1%, 15.1% and 10.3% represented unsecured loans as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively. Other collateral consists of movable property and assets.

Loans by Currency

The following table (extracted from the Group's consolidated management accounts) sets out the Group's consolidated loans to customers (gross of allowance for impairment losses), by currency as of the dates indicated.

	As of 30 June		As of 31 December					
	2013		2012		2011		2010	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(unaudited) (thousands of Lari, except percentages)							
GEL	1,065,885	33.1%	1,002,999	31.9%	852,618	32.0%	580,115	23.0%
Foreign currencies (freely convertible being USD, EUR and GBP)	2,124,523	65.9%	2,095,417	66.7%	1,802,332	67.6%	1,781,838	70.5%
Other currencies (non convertible)	34,502	1.0%	45,288	1.4%	13,189	0.4%	165,280	6.5%
Total loans to customers, gross	**3,224,910**	**100.0%**	**3,143,704**	**100.0%**	**2,668,139**	**100.0%**	**2,527,233**	**100.0%**

Lari-denominated loans to customers accounted for 33.1%, 31.9%, 32.0% and 23.0% of total loans to customers as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively, and foreign currency-denominated loans to customers accounted for 66.9%, 68.1%, 68.0% and 77.0% of total loans to customers as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively. As a result of de-dollarisation, Lari-denominated loans increased by GEL 62.9 million, or 6.3%, between 31 December 2012 and 30 June 2013, by GEL 150.4 million, or 17.6%, between 2011 and 2012, by GEL 272.5 million, or 47.0%, between 2010 and 2011. Loans denominated in and convertible into US dollars, Euros and pounds sterling increased by GEL 29.1 million, or 1.4%, between 31 December 2012 and 30 June 2013, GEL 293.1 million, or 16.3%, between 2011 and 2012, and increased by GEL 20.5 million, or 1.2%, between 2010 and 2011. Loans denominated in and not convertible into other foreign currencies decreased by GEL 10.8 million, or 23.8%, between 31 December 2012 and 30 June 2013, increased by GEL 32.1 million, or 243.4%, between 2011 and 2012, and decreased by GEL 152.1 million, or 92.0%, between 2010 and 2011.

Loan Concentrations

As of 30 June 2013, the Group had no concentration of loans to one borrower that exceeded 3.6% of total consolidated net loans. As of 31 December 2012, the Group had no concentration of loans to one borrower that exceeded 2.7% of total consolidated net loans.

Changes in Loan Loss Reserves

The following tables set out information on changes in the Group's consolidated loan loss reserves for the periods indicated.

	Commercial loans	Consumer loans	Residential mortgage loans	Micro loans	Gold-pawn loans	Others	Total
	(amounts in thousands of Lari) (audited)						
At 1 January 2012	**70,106**	**28,997**	**10,027**	**5,567**	—	—	**114,697**
Charge (reversal)	27,420	13,054	(1,142)	(146)	—	—	39,186
Recoveries	7,589	11,064	7,814	3,512	—	—	29,979
Write-offs	(25,174)	(30,196)	(5,720)	(6,475)	—	—	(67,565)
Interest accrued on impaired loans	(1,901)	(2,662)	(1,266)	(581)	—	—	(6,410)
Currency translation difference	158	(8)	—	—	—	—	150
At 31 December 2012	**78,198**	**20,249**	**9,713**	**1,877**	—	—	**110,037**
Individual impairment	66,566	11,230	3,499	1,877	—	—	83,172
Collective impairment	11,632	9,019	6,214	—	—	—	26,865
Total	**78,198**	**20,249**	**9,713**	**1,877**	—	—	**110,037**
As % of total reserves	**71.1%**	**18.4%**	**8.8%**	**1.7%**	—	—	**100.0%**
Ratio of charge to average net loans during the period[(1)]	**1.0%**	**0.5%**	**0.0%**	**0.0%**	—	—	**1.4%**

Note:
(1) Charge for the period divided by the quarterly average net loans for the same period.

	Commercial loans	Consumer loans	Residential mortgage loans	Micro loans	Gold-pawn loans	Others	Total
			(amounts in thousands of Lari)				
			(audited)				
At 1 January 2011	**114,499**	**31,873**	**22,424**	**5,951**	**—**	**789**	**175,536**
Charge (reversal)	24,017	(1,086)	1,033	(721)	—	(27)	23,216
Recoveries	2,900	15,158	7,404	3,387	—	—	28,849
Write-offs	(23,752)	(15,459)	(7,881)	(2,639)	—	—	(49,731)
Disposal of subsidiary	(43,593)	—	(11,714)	(65)	—	(803)	(56,175)
Interest accrued on impaired loans	(3,997)	(1,390)	(1,569)	(349)	—	—	(7,305)
Currency translation difference	32	(99)	330	3	—	41	307
At 31 December 2011	**70,106**	**28,997**	**10,027**	**5,567**	**—**	**—**	**114,697**
Individual impairment	61,852	7,304	5,173	1,841	—	—	76,170
Collective impairment	8,254	21,693	4,854	3,726	—	—	38,527
Total	**70,106**	**28,997**	**10,027**	**5,567**	**—**	**—**	**114,697**
As % of total reserves	**61.1%**	**25.3%**	**8.7%**	**4.9%**	**—**	**—**	**100.0%**
Ratio of charge to average net loans during the period[(1)]	**1.0%**	**0.0%**	**0.0%**	**0.0%**	**—**	**—**	**0.9%**

Note:
(1) Charge for the period divided by the quarterly average net loans for the same period.

	Commercial loans	Consumer loans	Residential mortgage loans	Micro loans	Gold-pawn loans	Others	Total
			(amounts in thousands of Lari)				
			(audited)				
At 1 January 2010	**82,042**	**54,989**	**23,490**	**3,788**	**—**	**2,177**	**166,486**
Charge (reversal)	23,932	7,571	18,440	1,474	—	(1,531)	49,886
Recoveries	21,090	15,208	3,249	3,150	—	42	42,739
Write-offs	(13,074)	(42,798)	(19,441)	(2,138)	—	—	(77,451)
Interest accrued on impaired loans	(1,392)	(3,306)	(3,681)	(360)	—	—	(8,739)
Currency translation difference	1,901	209	367	37	—	101	2,615
At 31 December 2010	**114,499**	**31,873**	**22,424**	**5,951**	**—**	**789**	**175,536**
Individual impairment	68,145	13,148	16,606	2,433	—	315	100,647
Collective impairment	46,354	18,725	5,818	3,518	—	474	74,889
Total	**114,499**	**31,873**	**22,424**	**5,951**	**—**	**789**	**175,536**
As % of total reserves	**65.2%**	**18.2%**	**12.8%**	**3.4%**	**—**	**0.4%**	**100.0%**
Ratio of charge to average net loans during the period[(1)]	**1.2%**	**0.4%**	**0.9%**	**0.1%**	**—**	**(0.1)%**	**2.5%**

Note:
(1) Charge for the period divided by the quarterly average net loans for the same period.

Loans by Maturity

Maturity Structure of the Loan Portfolio

The following table sets out the maturity structure of the Group's consolidated loans to customers (gross of allowance for impairment losses) as of the dates indicated.

	As of 30 June 2013		As of 31 December					
	2013		**2012**		**2011**		**2010**	
	Amount	**% of Total Loans**	**Amount**	**% of Total Loans**	**Amount**	**% of Total Loans**	**Amount**	**% of Total Loans**
	(unaudited)		*(audited)*					
	(thousands of Lari, except percentages)							
On demand and up to one month	360,247	11.2%	357,079	11.4%	304,040	11.4%	383,485	15.2%
One to three months	299,213	9.3%	304,631	9.7%	239,251	9.0%	166,624	6.6%
Three months to one year	993,866	30.8%	955,218	30.4%	756,283	28.3%	282,271	11.2%
More than one year	1,571,584	48.7%	1,526,776	48.5%	1,368,565	51.3%	1,694,853	67.0%
Total loans to customers, gross	**3,224,910**	**100.0%**	**3,143,704**	**100.0%**	**2,668,139**	**100.0%**	**2,527,233**	**100.0%**

As of 30 June 2013, loans due within one year or less represented 51.3% of the Group's customer loan portfolio (gross of allowance for impairment losses), compared with 51.5% as of 31 December 2012. As of 31 December 2011, loans due within one year or earlier represented 48.7% of the Group's customer loan portfolio (gross of allowance for impairment losses). As of 31 December 2010, loans due within one year or earlier represented 33.0% of the Group's customer loan portfolio (gross of allowance for impairment losses).

Maturity Profile of the Loan Portfolio by Type of Loan

The following table (extracted from the Group's consolidated management accounts) sets out information on the Group's consolidated loans to customers maturity profile as of 30 June 2013.

	Due In				
	Less than 1 year	**Between 1 and 5 years**	**Between 5 and 10 years**	**Over 10 years**	**Total**
	(amounts in thousands of Lari) *(unaudited)*				
Gross loans, by products					
Commercial loans...	845,052	771,199	54,373	—	1,670,624
Consumer loans	420,830	193,712	2,365	—	616,907
Residential mortgage loans.................................	53,517	204,847	128,403	8,997	395,764
Micro and SME loans	260,499	198,306	9,382	—	468,187
Gold – pawn loans	73,428	—	—	—	73,428
Total gross loans, by products	**1,653,326**	**1,368,064**	**194,523**	**8,997**	**3,224,910**
Gross loans due in < 1 year, of which:	**1,653,326**				
Loans with fixed (pre-determined) interest rates..	1,639,419				
Loans with floating or adjustable interest rates ...	13,907				

The following table (extracted from the Group's consolidated management accounts) sets out information on the Group's consolidated loans to customers maturity profile as of 31 December 2012.

	Due In				
	Less than 1 year	**Between 1 and 5 years**	**Between 5 and 10 years**	**Over 10 years**	**Total**
	(amounts in thousands of Lari) (unaudited)				
Gross loans, by products					
Commercial loans	858,580	772,504	46,540	—	1,677,624
Consumer loans	404,778	184,354	2,836	—	591,968
Residential mortgage loans	56,480	201,304	129,716	10,614	398,114
Micro and SME loans	221,645	170,179	8,729	—	400,553
Gold – pawn loans	75,445	—	—	—	75,445
Total gross loans, by products	**1,616,928**	**1,328,341**	**187,821**	**10,614**	**3,143,704**
Gross loans due in < 1 year, of which:	**1,616,928**				
Loans with fixed (pre-determined) interest rates	1,607,575				
Loans with floating or adjustable interest rates	9,353				

Of the Group's total loans to customers as of 30 June 2013, 51.3% represented loans with maturities of less than one year, 42.4% represented loans with maturities of between one and five years 6.0% represented loans with maturities of between five and ten years and 0.3% represented loans with maturities of more than ten years. Of the Group's total commercial loans as of 30 June 2013, 50.5% represented loans with maturities of less than one year, 46.2% represented loans with maturities of between one and five years, 3.3% represented loans with maturities of between five and ten years and no loans had maturities of more than 10 years. Of the Group's total micro and SME loans as of 30 June 2013, 55.6% represented loans with maturities of less than one year, 42.4% represented loans with maturities of between one and five years, 2.0% represented loans with maturities of between five and ten years and no loans had maturities of more than 10 years. Of the Group's total mortgage loans as of 30 June 2013, 13.5% represented loans with maturities of less than one year, 51.8% represented loans with maturities of between one and five years, 32.4% represented loans with maturities of between five and ten years and 2.3% represented loans with maturities of more than 10 years. Of the Group's total consumer loans as of 30 June 2013, 68.2% represented loans with maturities of less than one year, 31.4% represented loans with maturities of between one and five years, 0.4% represented loans with maturities of between five and ten years and no loans had maturities of more than 10 years. Of the Group's total gold pawn loans as of 30 June 2013, 100.0% represented loans with maturities of less than one year.

Of the Group's total loans to customers as of 31 December 2012, 51.4% represented loans with maturities of less than one year, 42.3% represented loans with maturities of between one and five years 6.0% represented loans with maturities of between five and ten years, and 0.3% represented loans with maturities of more than ten years. Of the Group's total commercial loans as of 31 December 2012, 51.2% represented loans with maturities of less than one year, 46.0% represented loans with maturities of between one and five years, 2.8% represented loans with maturities of between five and ten years and no loans had maturities of more than 10 years. Of the Group's total micro and SME loans as of 31 December 2012, 55.3% represented loans with maturities of less than one year, 42.5% represented loans with maturities of between one and five years, 2.2% represented loans with maturities of between five and ten years and no loans had maturities of more than 10 years. Of the Group's total mortgage loans as of 31 December 2012, 14.2% represented loans with maturities of less than one year, 50.6% represented loans with maturities of between one and five years, 32.6% represented loans with maturities of between five and ten years and 2.6% represented loans with maturities of more than 10 years. Of the Group's total consumer loans as of 31 December 2012, 68.4% represented loans with maturities of less than one year, 31.1% represented loans with maturities of between one and five years, 0.5% represented loans with maturities of between five and ten years and no loans had maturities of more than 10 years. Of the Group's total gold pawn loans as of 31 December 2012, 100.0% represented loans with maturities of less than one year and no loans represented loans with maturities of more than one year.

Geographical Concentration of Loans

The Group has a significant geographical concentration of loans issued to borrowers in one geographical region. The Group's loans to customers in Georgia represented 95.2%, 96.4%, 98.3% and 89.3% of the Group's total loan portfolio as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively. The Group's loans to customers in the Tbilisi region represented 82.3%, 81.6%, 82.4% and

85.0% of the Group's total loan portfolio as of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, respectively.

Loans by Amount and Number of Borrowers

As of 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, the exposure of the Group to its ten largest third-party borrowers amounted to GEL 520.7 million (US$315.4 million), GEL 544.5 million (US$328.6 million), GEL 403.0 million and GEL 384.0 million, representing 16.1%, 17.3%, 15.1% and 15.2% of total loans to customers (in each case gross of allowance for impairment losses), respectively.

The following table sets out information on the Group's ten largest borrowers (based on exposure) as of 30 June 2013.

Rank by borrower exposure	**Exposure size (net of allowance for impairment losses)** (*thousands of Lari*)	**Industry sector in which borrower operates**
1	112,378	Mining and Mineral Processing
2	95,983	Mining and Mineral Processing
3	68,976	Agriculture and Forestry Sector
4	49,275	Retail or Service Sector
5	36,756	Retail or Service Sector
6	35,920	Retail or Service Sector
7	28,465	Retail or Service Sector
8	27,226	Mining and Mineral Processing
9	26,909	Retail or Service Sector
10	15,693	Construction Sector
Total	**497,581**	

Investment Portfolio

The following table (extracted from the Group's consolidated management accounts) sets out information on the Group's consolidated investment securities as of the dates indicated.

	As of 30 June	**As of 31 December**		
	2013	**2012**	**2011**	**2010**
		(amounts in thousands of Lari) (unaudited)		
- Corporate bonds	1,671	760	1,066	20
- Corporate shares	365	211	49	1,198
Trading securities, total	**2,036**	**971**	**1,115**	**1,218**
- Treasury bills	34,777	9,648	88,657	128,539
- Central Banks' CDs	409,695	259,402	199,142	104,969
- Government bonds	194,472	188,967	120,255	52,120
- Corporate bonds	—	—	21	—
- Corporate shares	88,209	76,681	11,501	9,312
Investment securities - AFS securities, total	**727,153**	**534,698**	**419,576**	**294,940**
- Corporate bonds	—	—	—	21
Investment securities - held-to-maturity, total	**—**	**—**	**—**	**21**
Investment securities and trading securities, total	**729189**	**535,669**	**420,691**	**296,179**

The following table (extracted from the Group's consolidated management accounts) sets out the maturity profile of the Group's consolidated investment securities as of 30 June 2013.

	Due In				
	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years	Total
	(amounts in thousands of Lari) *(unaudited)*				
- Treasury bills	34,777	—	—	—	34,777
- Central banks' CDs	409,695	—	—	—	409,695
- Government bonds	59,065	124,247	11,160	—	194,472
- Corporate shares	88,574	—	—	—	88,574
- Corporate bonds	700	971	—	—	1,671
Investment securities and trading securities, total	**592,811**	**125,218**	**11,160**	—	**729,189**

The following table (extracted from the Group's consolidated management accounts) sets out the securities maturity profile of the Group's consolidated investment securities as of 31 December 2012.

	Due In				
	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years	Total
	(amounts in thousands of Lari) *(unaudited)*				
- Treasury bills	9,648	—	—	—	9,648
- Central banks' CDs	259,402	—	—	—	259,402
- Government bonds	54,956	127,962	6,049	—	188,967
- Corporate shares	76,892	—	—	—	76,892
- Corporate bonds	—	760	—	—	760
Investment securities and trading securities, total	**400,898**	**128,722**	**6,049**	—	**535,669**

The following table sets out the components of the Group's consolidated available-for-sale securities as of the dates indicated.

	As of 30 June		As of 31 December			
	2013		2012		2011	2010
	(unaudited)		*(audited)*			
	(thousands of Lari)	*(thousands of US dollars)*(1)	*(thousands of Lari)*	*(thousands of US dollars)*(2)	*(thousands of Lari)*	*(thousands of Lari)*
Ministry of Finance treasury bills	34,777	21,064	9,648	5,823	88,657	128,539
Certificates of deposit of central banks	409,695	248,150	259,402	156,549	199,142	104,969
Ministry of Finance treasury bonds	194,472	117,790	188,967	114,042	120,255	52,120
Corporate shares	88,209	53,428	76,681	46,277	11,501	11,294
Corporate bonds	—	—	—	—	21	—
Less - allowance for impairment	—	—	—	—	—	(1,982)
Available-for-sale securities	**727,153**	**440,432**	**534,698**	**322,691**	**419,576**	**294,940**

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

The following table sets out the nominal interest rates and maturities of the Group's consolidated available-for-sale Ministry of Finance Treasury Bills and corporate bonds as of the dates indicated.

	As of 30 June		As of 31 December					
	2013		2012		2011		2010	
	%	Maturity	%	Maturity	%	Maturity	%	Maturity
	(unaudited)		*(audited)*					
Ministry of Finance treasury bills	5.68%	<1 year	6.63%	<1 year	9.69%	<1 year	10.03%	<1 year
Certificates of deposit of central banks	5.77%	<1 year	6.34%	<1 year	8.04%	<1 year	9.98%	<1 year
Ministry of Finance treasury bonds	9.31%	1-10 years	10.37%	1-10 years	12.76%	1-2 years	15.32%	1-2 years
Corporate bonds	—	—	—	—	15.0%	1 year	—	—

The following table sets out the components of the Group's consolidated held-to-maturity securities as of the dates indicated.

	As of 30 June		As of 31 December					
	2013		2012		2011		2010	
	Carrying value	**Nominal value**	**Carrying value**	**Nominal value**	**Carrying value**	**Nominal value**	**Carrying value**	**Nominal value**
	(unaudited) *(thousands of Lari)*		*(audited)* *(thousands of Lari)*					
Corporate bonds	—	—	—	—	—	—	21	20
Held-to-maturity securities	—	—	—	—	—	—	**21**	**20**

The following table sets out the contractual interest rates and maturities of the Group's consolidated held-to-maturity Ministry of Finance Treasury Bills and corporate bonds as of the dates indicated.

	As of 30 June		As of 31 December					
	2013		2012		2011		2010	
	%	**Maturity**	**%**	**Maturity**	**%**	**Maturity**	**%**	**Maturity**
	(unaudited) *(thousands of Lari, except percentages)*		*(audited)* *(thousands of Lari, except percentages)*					
Corporate bonds	—	—	—	—	—	—	10.0%	2011

The following table (extracted from the Group's consolidated management accounts) sets out information on the profile of the Group's consolidated securities held which exceeded 10% of consolidated shareholders' equity per issuer as of 30 June 2013.

	Balance Sheet Category	Outstanding Balance	Name of Issuer[(1)]	State / Corporate	Issue Date	Maturity Date	Remaining Maturity (in Days)	Nominal Rate
				(amounts in thousands of Lari) (unaudited)				
Ministry of Finance treasury bills:								
Contract 1	AFS, T-Bills	11,892	MoF	State	16-Apr-13	18-Jul-13	18	5.40%
Contract 2	AFS, T-Bills	7,158	MoF	State	13-Jun-13	8-May-14	312	5.53%
Contract 3	AFS, T-Bills	4,811	MoF	State	11-Apr-13	13-Mar-14	256	5.95%
Contract 4	AFS, T-Bills	10,916	MoF	State	14-Feb-13	16-Jan-14	200	5.82%
Aggregate value of Ministry of Finance treasury bills		**34,777**						
Shareholders' equity		**1,180,916**						
As a % of shareholders' equity		**2.94%**						
Certificates of deposit of central banks:								
Contract 1	AFS, CDs	43,696	NBG	State	25-Apr-13	18-Jul-13	18	5.45%
Contract 2	AFS, CDs	33,134	NBG	State	11-Apr-13	4-Jul-13	4	5.25%
Contract 3	AFS, CDs	43,790	NBG	State	10-May-13	1-Aug-13	32	5.75%
Contract 4	AFS, CDs	13,308	NBG	State	23-May-13	15-Aug-13	46	5.95%
Contract 5	AFS, CDs	47,573	NBG	State	6-Jun-13	29-Aug-13	60	5.62%
Contract 6	AFS, CDs	25,518	NBG	State	20-Jun-13	12-Sep-13	74	5.32%
Contract 7	AFS, CDs	29,893	NBG	State	24-Jan-13	25-Jul-13	25	6.02%
Contract 8	AFS, CDs	1,997	NBG	State	10-Jan-13	11-Jul-13	11	6.14%
Contract 9	AFS, CDs	9,925	NBG	State	21-Feb-13	22-Aug-13	53	5.58%
Contract 10	AFS, CDs	37,522	NBG	State	30-May-13	28-Nov-13	151	5.85%
Contract 11	AFS, CDs	40,701	NBG	State	16-May-13	14-Nov-13	137	5.95%
Contract 12	AFS, CDs	35,377	NBG	State	2-May-13	31-Oct-13	123	5.85%
Contract 13	AFS, CDs	47,261	NBG	State	18-Apr-13	17-Oct-13	109	5.47%
Aggregate value of certificates of deposit of central banks		**409,695**						
Shareholders' equity		**1,180,916**						
As a % of shareholders' equity		**34.69%**						
Ministry of Finance treasury bonds:								
Contract 1	AFS, T-Bonds	2,875	MoF	State	9-Mar-12	9-Mar-22	3,174	12.30%
Contract 2	AFS, T-Bonds	8,000	MoF	State	2-Aug-12	2-Aug-22	3,320	10.80%
Contract 3	AFS, T-Bonds	7,815	MoF	State	21-Feb-13	21-Feb-23	3,523	10.40%
Contract 4	AFS, T-Bonds	3,003	MoF	State	28-Apr-11	28-Apr-16	1,033	15.20%
Contract 5	AFS, T-Bonds	2,928	MoF	State	23-Jun-11	23-Jun-16	1,089	14.60%
Contract 6	AFS, T-Bonds	1,221	MoF	State	21-Jul-11	21-Jul-16	1,117	14.10%
Contract 7	AFS, T-Bonds	2,988	MoF	State	18-Aug-11	18-Aug-16	1,145	13.50%
Contract 8	AFS, T-Bonds	5,863	MoF	State	15-Sep-11	15-Sep-16	1,173	13.00%
Contract 9	AFS, T-Bonds	22,320	MoF	State	26-Jan-12	26-Jan-17	1,306	11.30%
Contract 10	AFS, T-Bonds	9,116	MoF	State	26-Apr-12	26-Apr-17	1,396	9.80%
Contract 11	AFS, T-Bonds	9,972	MoF	State	15-Mar-12	15-Jun-16	1,081	12.00%
Contract 12	AFS, T-Bonds	18,708	MoF	State	26-Jul-12	26-Jul-17	1,487	8.50%
Contract 13	AFS, T-Bonds	15,124	MoF	State	25-Oct-12	25-Oct-17	1,578	8.00%
Contract 14	AFS, T-Bonds	14,747	MoF	State	24-Jan-13	24-Jan-18	1,669	8.30%
Contract 15	AFS, T-Bonds	4,878	MoF	State	7-Jun-12	15-Sep-15	807	12.00%
Contract 16	AFS, T-Bonds	6,048	MoF	State	29-Sep-11	29-Sep-13	91	10.00%
Contract 17	AFS, T-Bonds	1,017	MoF	State	8-Dec-11	8-Dec-13	161	9.10%
Contract 18	AFS, T-Bonds	18,871	MoF	State	12-Jan-12	12-Jan-14	196	8.90%
Contract 19	AFS, T-Bonds	16,813	MoF	State	19-Apr-12	19-Apr-14	293	7.40%
Contract 20	AFS, T-Bonds	1,291	MoF	State	15-Mar-11	15-Sep-13	77	12.00%
Contract 21	AFS, T-Bonds	2,062	MoF	State	15-Mar-11	15-Dec-13	168	12.00%
Contract 22	AFS, T-Bonds	2,521	MoF	State	15-Nov-12	15-Nov-14	503	6.80%
Contract 23	AFS, T-Bonds	16,291	MoF	State	7-Mar-13	7-Mar-15	615	6.10%
Aggregate value of Ministry of Finance treasury bonds		**194,472**						
Shareholders' equity		**1,180,916**						
As a % of shareholders' equity		**16.47%**						

Note:
(1) MoF means Ministry of Finance

The following table (extracted from the Group's consolidated management accounts) sets out information on the profile of the Group's consolidated securities held which exceeded 10% of consolidated shareholders' equity per issuer as of 31 December 2012.

	Balance Sheet Category	Outstanding Balance	Name of Issuer[1]	State / Corporate	Issue Date	Maturity Date	Remaining Maturity (in Days)	Nominal Rate
				(amounts in thousands of Lari) (unaudited)				
Ministry of Finance treasury bills:								
Contract 1	AFS, T-Bills	997	MoF	State	9-Feb-12	17-Jan-13	17	7.70%
Contract 2	AFS, T-Bills	4,834	MoF	State	16-Aug-12	18-Jul-13	199	6.45%
Contract 3	AFS, T-Bills	456	MoF	State	6-Dec-12	7-Nov-13	311	6.45%
Contract 4	AFS, T-Bills	988	MoF	State	15-Mar-12	14-Mar-13	73	6.93%
Contract 5	AFS, T-Bills	2,373	MoF	State	8-Nov-12	7-Nov-13	311	6.40%
Aggregate value of Ministry of Finance treasury bills							**9,648**	
Shareholders' equity							**1,129,786**	
As a % of shareholders' equity							**0.85%**	
Certificates of deposit of central banks:								
Contract 1	AFS, CDs	24,815	NBG	State	22-Nov-12	14-Feb-13	45	6.33%
Contract 2	AFS, CDs	22,437	NBG	State	25-Oct-12	17-Jan-13	17	6.18%
Contract 3	AFS, CDs	11,994	NBG	State	11-Oct-12	3-Jan-13	3	6.25%
Contract 4	AFS, CDs	24,353	NBG	State	6-Dec-12	28-Feb-13	59	6.05%
Contract 5	AFS, CDs	9,881	NBG	State	20-Dec-12	14-Mar-13	73	6.04%
Contract 6	AFS, CDs	25,237	NBG	State	20-Sep-12	21-Mar-13	80	6.15%
Contract 7	AFS, CDs	19,874	NBG	State	9-Aug-12	7-Feb-13	38	6.27%
Contract 8	AFS, CDs	22,262	NBG	State	26-Jul-12	24-Jan-13	24	6.25%
Contract 9	AFS, CDs	29,537	NBG	State	4-Oct-12	4-Apr-13	94	6.25%
Contract 10	AFS, CDs	20,077	NBG	State	13-Dec-12	13-Jun-13	164	6.15%
Contract 11	AFS, CDs	29,334	NBG	State	15-Nov-12	16-May-13	136	6.34%
Contract 12	AFS, CDs	19,601	NBG	State	1-Nov-12	2-May-13	122	6.27%
Aggregate value of certificates of deposit of central banks			**259,402**					
Shareholders' equity			**1,129,786**					
As a % of shareholders' equity			**22.96%**					
Ministry of Finance treasury bonds:								
Contract 1	AFS, T-Bonds	7,360	MoF	State	15-Mar-10	15-Jun-14	531	12.00%
Contract 2	AFS, T-Bonds	845	MoF	State	10-Feb-11	10-Feb-13	41	12.80%
Contract 3	AFS, T-Bonds	2,080	MoF	State	15-Mar-11	15-Sep-13	258	12.00%
Contract 4	AFS, T-Bonds	2,106	MoF	State	15-Mar-11	15-Dec-13	349	12.00%
Contract 5	AFS, T-Bonds	7,410	MoF	State	15-Mar-11	15-Sep-14	623	12.00%
Contract 6	AFS, T-Bonds	4,588	MoF	State	14-Apr-11	14-Apr-13	104	12.50%
Contract 7	AFS, T-Bonds	3,027	MoF	State	28-Apr-11	28-Apr-16	1,214	15.20%
Contract 8	AFS, T-Bonds	8,787	MoF	State	9-Jun-11	9-Jun-13	160	11.90%
Contract 9	AFS, T-Bonds	2,943	MoF	State	23-Jun-11	23-Jun-16	1,270	14.60%
Contract 10	AFS, T-Bonds	2,700	MoF	State	7-Jul-11	7-Jul-13	188	11.70%
Contract 11	AFS, T-Bonds	1,225	MoF	State	21-Jul-11	21-Jul-16	1,298	14.10%
Contract 12	AFS, T-Bonds	2,991	MoF	State	18-Aug-11	18-Aug-16	1,326	13.50%
Contract 13	AFS, T-Bonds	5,278	MoF	State	1-Sep-11	1-Sep-13	244	10.30%
Contract 14	AFS, T-Bonds	5,859	MoF	State	15-Sep-11	15-Sep-16	1,354	13.00%
Contract 15	AFS, T-Bonds	10,472	MoF	State	29-Sep-11	29-Sep-13	272	10.00%
Contract 16	AFS, T-Bonds	4,133	MoF	State	17-Nov-11	17-Nov-13	321	9.50%
Contract 17	AFS, T-Bonds	1,025	MoF	State	8-Dec-11	8-Dec-13	342	9.10%
Contract 18	AFS, T-Bonds	20,813	MoF	State	12-Jan-12	12-Jan-14	377	8.90%
Contract 19	AFS, T-Bonds	11,361	MoF	State	26-Jan-12	26-Jan-17	1,487	11.30%
Contract 20	AFS, T-Bonds	2,760	MoF	State	9-Mar-12	9-Mar-22	3,355	12.30%
Contract 21	AFS, T-Bonds	9,953	MoF	State	15-Mar-12	15-Jun-16	1,262	12.00%
Contract 22	AFS, T-Bonds	20,425	MoF	State	19-Apr-12	19-Apr-14	474	7.40%
Contract 23	AFS, T-Bonds	5,283	MoF	State	26-Apr-12	26-Apr-17	1,577	9.80%
Contract 24	AFS, T-Bonds	10,310	MoF	State	12-Jul-12	12-Jul-14	558	6.80%
Contract 25	AFS, T-Bonds	10,294	MoF	State	26-Jul-12	26-Jul-17	1,668	8.50%
Contract 26	AFS, T-Bonds	7,648	MoF	State	2-Aug-12	2-Aug-22	3,501	10.80%
Contract 27	AFS, T-Bonds	14,795	MoF	State	25-Oct-12	25-Oct-17	1,759	8.00%
Contract 28	AFS, T-Bonds	2,496	MoF	State	15-Nov-12	15-Nov-14	684	6.80%
Aggregate value of Ministry of Finance treasury bonds			**188,967**					
Shareholders' equity			**1,129,786**					
As a % of shareholders' equity			**16.73%**					

Note:
(1) MoF means Ministry of Finance

Deposits and Other Liabilities by Maturity

The following table (extracted from the Group's consolidated management accounts) sets forth an analysis of the Group's consolidated amounts due to customers, amounts due to credit institutions, other liabilities and total liabilities by maturity as of the dates indicated.

	As of 30 June		As of 31 December			
	2013		2012		2011	2010
			(unaudited)			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of US dollars)*[2]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Three months or less, of which	456,210	753,203	488,613	809,631	1,045,020	684,578
On demand	228,617	377,447	214,747	355,835	643,135	269,673
One month or less	6,938	11,455	9,140	15,145	26,292	36,780
More than one month, but less than three months	220,655	364,301	264,726	438,651	375,593	378,125
More than three months, but less than or equal to one year	1,118,395	1,846,470	936,786	1,552,255	1,491,741	1,196,793
More than one year	153,300	253,099	199,842	331,139	198,461	144,937
Total amounts due to customers	**1,727,905**	**2,852,772**	**1,625,241**	**2,693,025**	**2,735,222**	**2,026,308**
Amounts due to credit institutions,	893,813	1,475,686	1,000,098	1,657,162	921,172	1,138,927
Other liabilities (maturity undefined)	150,315	248,170	149,092	247,045	196,264	146,346
Total liabilities	**2,772,033**	**4,576,628**	**2,774,431**	**4,597,232**	**3,852,658**	**3,311,581**

Notes:
(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.
(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

The following tables (extracted from the Group's consolidated management accounts) set forth an analysis of the Group's consolidated short-term and long-term amounts due to customers, amounts due to credit institutions and other financial liabilities (i) in Lari equivalents and (ii) as a percentage of their total as of the dates indicated.

	As of 30 June		As of 31 December			
	2013		2012		2011	2010
			(unaudited)			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of US dollars)*[2]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Short-term[3]	1,896,272	3,130,745	3,051,861	1,841,799	2,801,882	2,074,757
Long-term[4]	725,447	1,197,713	1,298,326	783,540	854,512	1,090,478
Total amounts due to customers, amounts due to credit institutions and other financial liabilities	**2,621,719**	**4,328,458**	**4,350,187**	**2,625,339**	**3,656,394**	**3,165,235**

Notes:
(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.
(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.
(3) "Short-term" means due within one year of the relevant date.
(4) "Long-term" means due after more than one year from the relevant date.

	As of 30 June	As of 31 December		
	2013	2012	2011	2010
	(unaudited) *(in percentages)*	*(unaudited)* *(in percentages)*		
Short-term[1]	72.3%	70.2%	76.6%	65.5%
Long-term[2]	27.7%	29.8%	23.4%	34.5%

Notes:
(1) "Short-term" means due within one year of the relevant date.
(2) "Long-term" means due after more than one year from the relevant date.

Deposits and Other Liabilities by Currency

The following table (extracted from the Group's consolidated management accounts) sets out Lari versus foreign currency denomination of the Group's consolidated amounts due to customers, amounts due to credit institutions, income tax liabilities and total liabilities as of the dates indicated.

	As of 30 June		As of 31 December			
	2013		2012		2011	2010
			(unaudited)			
	(thousands of US dollars)(1)	*(thousands of Lari)*	*(thousands of US dollars)*(2)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Amounts due to customers:						
Lari	597,593	986,626	506,248	838,853	1,031,623	565,932
Foreign currency	1,130,313	1,866,146	1,118,993	1,854,172	1,703,599	1,460,376
Total amounts due to customers	**1,727,906**	**2,852,772**	**1,625,241**	**2,693,025**	**2,735,222**	**2,026,308**
Amounts due to credit institutions:						
Lari	117,809	194,503	212,727	352,489	95,589	146,133
Foreign currency	776,004	1,281,183	787,371	1,304,673	825,583	992,794
Total amounts due to credit institutions	**893,813**	**1,475,686**	**1,000,098**	**1,657,162**	**921,172**	**1,138,927**
Amounts due to customers:						
Other liabilities, provisions and income tax liability:						
Lari	28,562	47,157	30,301	50,208	64,264	68,646
Foreign currency	121,753	201,013	118,791	196,837	132,000	77,700
Total other liabilities, provisions and income tax liability	**150,315**	**248,170**	**149,092**	**247,045**	**196,264**	**146,346**
Total liabilities	**2,772,034**	**4,576,628**	**2,774,431**	**4,597,232**	**3,852,658**	**3,311,581**

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

The following table (extracted from the Group's consolidated management accounts) sets out the Group's consolidated total liabilities in Lari and foreign currency, each as a percentage of total liabilities.

	As of 30 June	As of 31 December		
	2013	2012	2011	2010
		(in percentages) *(unaudited)*		
Lari	26.8%	27.0%	30.9%	23.6%
Foreign currency	73.2%	73.0%	69.1%	76.4%
Total liabilities	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The following table (extracted from the Group's consolidated management accounts) sets out the Group's gross loans to retail banking and private banking customers by underlying currency as of the dates indicated.

	As of 30 June		As of 31 December					
	2013		2012		2011		2010	
	Amount	Percentage of Total Retail and Private Banking Loans	Amount	Percentage of Total Retail and Private Banking Loans	Amount	Percentage of Total Retail and Private Banking Loans	Amount	Percentage of Total Retail and Private Banking Loans
	(unaudited) *(thousands of Lari, except percentages)*							
GEL	789,179	50.8%	691,883	47.2%	601,541	46.1%	391,814	35.5%
US$	722,991	46.5%	720,039	49.1%	669,750	51.3%	628,342	57.0%
Euros	21,104	1.4%	20,892	1.4%	11,651	0.9%	15,086	1.4%
GBP	390	0.0%	12,450	0.8%	12,438	1.0%	137	0.0%
UAH	—	—	—	—	—	—	16,445	1.5%
BYR	20,622	1.3%	20,816	1.5%	9,701	0.7%	50,859	4.6%
Total loans to retail banking and private banking customers, gross	**1,554,286**	**100.0%**	**1,466,080**	**100.0%**	**1,305,081**	**100.0%**	**1,102,683**	**100.0%**

Returns on Equity and Assets

The following table (extracted from the Group's consolidated management accounts) sets out certain selected financial ratios of the Group for the periods indicated.

	For the six months ended 30 June		For the year ended 31 December		
	2013	2012	2012	2011	2010
	(amounts in thousands of Lari, unless otherwise specified) *(unaudited)*				
Net Income (loss) of the period	96,705	87,143	182,745	135,710	82,667
Average total assets of the period (based on quarterly averages)	5,688,202	4,737,002	5,103,832	4,240,433	3,395,023
Return on assets	**3.4%**	**3.7%**	**3.6%**	**3.2%**	**2.4%**
Net Income (loss) of the period	96,705	87,143	182,745	135,710	82,667
Average shareholders' equity of the period (based on quarterly averages)	1,155,812	955,060	1,011,195	754,189	644,414
Return on equity	**16.9%**	**18.3%**	**18.1%**	**18.0%**	**12.8%**
Per Share Dividends declared in the period	1.5	0.3	1.5	0.300	—
Earnings (loss) Per Share of the period	5.399	4.438	5.399	4.438	2.785
Dividend payout ratio	**27.8%**	**6.8%**	**27.8%**	**6.8%**	**—**
Average shareholders' equity of the period (based on quarterly averages)	1,155,812	955,060	1,011,195	754,189	644,414
Average total assets of the period (based on quarterly averages)	5,688,202	4,737,002	5,103,832	4,240,433	3,395,023
Equity to Assets ratio	**20.3%**	**20.2%**	**19.8%**	**17.8%**	**19.0%**

FUNDING

The Group has a diverse funding base comprising short-term sources of funding (including retail and corporate customer deposits, time-deposits and inter-bank loans, borrowings from the NBG and from central bank of Belarus, including sale and repurchase operations with the NBG) and longer-term sources of funding (including borrowing from international credit institutions including DFIs, sale of securities and issuing debt securities). Bank of Georgia has issued promissory notes denominated in US dollars, Euro, Lari and Azerbaijani Manat, as well as loan pass-through notes denominated in US dollars. Since the beginning of 2013, the Bank began to issue certificates of deposit in GEL and foreign currencies. As of 30 June 2013, total amounts due to customers amounted to GEL 2,852.8 million (US$1,727.9 million), as compared to GEL 2,693.0 million (US$1,625.2 million), GEL 2,735.2 million and GEL 2,026.3 million as of 31 December 2012, 2011 and 2010, respectively. As of 30 June 2013, amounts due to credit institutions amounted to GEL 1,475.7 million (US$893.8 million), as compared to GEL 1,657.2 million (US$1,000.1 million), GEL 921.2 million and GEL 1,138.9 million as of 31 December 2012, 2011 and 2010, respectively. The Group's funding strategy is to continue to further diversify its funding sources and reduce its funding costs.

The following table sets forth an analysis of the Group's liabilities as of the dates indicated:

	As of 30 June		As of 31 December			
	2013		2012		2011	2010
	(unaudited)		*(audited)*			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of US dollars)*[2]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Amounts Due to Customers						
Time deposits	858,156	1,416,815	799,966	1,325,544	1,347,334	1,140,371
Current accounts	862,432	1,423,876	782,961	1,297,367	1,206,750	864,327
Promissory notes issued	7,317	12,081	42,314	70,114	181,138	21,610
Total amounts due to customers	**1,727,905**	**2,852,772**	**1,625,241**	**2,693,025**	**2,735,222**	**2,026,308**
Amounts Due to Credit Institutions						
Borrowings from international credit institutions[3]	328,338	542,086	360,109	596,700	449,220	400,740
Eurobonds	257,331	424,854	253,982	420,849	95,954	270,880
Short-term loans from the National Bank of Georgia	123,661	204,165	187,193	310,178	–	–
Time deposits and inter-bank loans[4]	53,955	89,079	68,330	113,222	42,837	130,284
Correspondent accounts	4,401	7,266	4,809	7,969	15,331	4,717
Subordinated debt	126,127	208,236	125,675	208,244	317,830	332,306
Total amounts due to credit institutions	**893,813**	**1,475,686**	**1,000,098**	**1,657,162**	**921,172**	**1,138,927**
Total income tax liabilities	38,376	63,358	37,500	62,138	37,416	35,152
Provisions	293	483	412	683	386	4,407
Total other liabilities	111,647	184,329	111,178	184,224	158,462	106,787
Total liabilities	**2,772,034**	**4,576,628**	**2,774,429**	**4,597,232**	**3,852,658**	**3,311,581**

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

(3) Borrowings from international credit institutions include loans from EBRD, IFC, ADB, OPIC, FMO and EFSE (each as defined below), WorldBusiness Capital Inc., Merrill Lynch & Co. Inc., Citibank International plc, BG Finance B.V., Semper Augustus HBK and others.

(4) Time deposits and inter-bank loans represent advances from credit institutions used by the Group to manage its short-term liquidity needs.

Amounts Due to Customers

Amounts due to customers include current accounts and time deposits from corporate customers and retail customers, as well as issued promissory notes and certificates of deposit. Amounts due to customers increased to GEL 2,852.8 million (US$1,727.9 million) as of 30 June 2013, having decreased to GEL 2,693.0 million (US$1,625.2 million) as of 31 December 2012 from GEL 2,735.2 million as of 31 December 2011. Amounts due to customers was GEL 2,026.3 million as of 31 December 2010. As of 30 June 2013, amounts due to customers in the amount of GEL 497.3 million (US$301.2 million) (17.4% of total gross customer accounts) were attributable to the Group's ten largest deposit customers.

The Group accepts deposits in Lari and foreign currencies. As of 30 June 2013, 65.4% of the Group's total customer accounts were in foreign currencies.

The following table sets out customer accounts with the Group by currency as of the dates indicated:

	As of 30 June		As of 31 December			
	2013		2012		2011	2010
	(unaudited)		*(audited)*			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of US dollars)*[2]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Foreign currency deposits:						
Foreign currencies (freely convertible being primarily USD, EUR and GBP)	1,095,947	1,809,409	1,102,383	1,826,648	1,683,261	1,352,044
Other currencies (non convertible)	34,366	56,737	16,610	27,524	20,338	108,332
Total foreign currency deposits	**1,130,313**	**1,866,146**	**1,118,993**	**1,854,172**	**1,703,599**	**1,460,376**
Lari deposits	597,592	986,626	506,248	838,853	1,031,623	565,932
Total amounts due to customers	**1,727,905**	**2,852,772**	**1,625,241**	**2,693,025**	**2,735,222**	**2,026,308**

Notes:
(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.
(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

The following table provides information on amounts due to customers by type of customer as of the dates indicated.

	As of 30 June		As of 31 December			
	2013		2012		2011	2010
	(unaudited)		*(audited)*			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of US dollars)*[2]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Individuals	814,228	1,344,292	747,215	1,238,135	1,056,852	894,312
Private enterprises	811,630	1,340,001	784,844	1,300,487	1,290,908	964,150
State and budgetary organisations	102,047	168,479	93,182	154,403	387,462	167,846
Total amounts due to customers	**1,727,905**	**2,852,772**	**1,625,241**	**2,693,025**	**2,735,222**	**2,026,308**

Notes:
(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.
(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

Since 1 January 2009, the Bank has issued promissory notes to private depositors on several occasions. Such promissory notes are effectively non-tradable time deposits with no option of early withdrawal before maturity. Between June and December 2010, the Bank raised US$12.0 million through the issuance of such USD, GEL and AZN-denominated promissory notes. Each of these notes had a term of one year, and all of the notes matured in December 2011. Between February 2011 and December 2011, the Bank raised US$110.6 million through the issuance of US$95.39 million promissory notes, €8.04 million promissory notes, GEL 3.25 million promissory notes, and AZN 1.73 million promissory notes. The terms of such notes ranged from 2 to 13 months. As of 30 June 2013, the Bank had GEL 12.1 million foreign currency denominated promissory notes outstanding.

Amounts Due to Credit Institutions

Amounts due to credit institutions include current accounts and term deposits and inter-bank loans from the inter-bank market, which are used by the Group to manage its short-term liquidity needs, as well as borrowings from international credit institutions (including FDIs) as a source of long-term funding. As of 30 June 2013, total amounts due to credit institutions were GEL 1,475.7 million (US$893.8 million), representing 32.2% of the Group's total liabilities as of that date. Total amounts due to credit institutions were GEL 1,657.2 million (US$1,000.1 million), GEL 921.2 million and GEL 1,138.9 million as of 31 December 2012, 2011 and 2010, respectively, constituting 36.0%, 23.9% and 34.4% of total liabilities for the respective periods.

As of 30 June 2013, 75.4% of borrowings from international credit institutions were denominated in US dollars. As of the same date, 36.0% of amounts due to credit institutions had a maturity of less than one year.

The following table lists the composition of total amounts due to credit institutions as of the dates indicated:

	As of 30 June		As of 31 December			
	2013		2012		2011	2010
	(unaudited)		*(audited)*			
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(thousands of US dollars)*[(2)]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Borrowings from international credit institutions[(3)]	328,338	542,086	360,109	596,700	449,220	400,740
Eurobonds	257,331	424,854	253,982	420,849	95,954	270,880
Short-term loans from the National Bank of Georgia	123,661	204,165	187,193	310,178	-	-
Time deposits and inter-bank loans[(4)]	53,955	89,079	68,330	113,222	42,837	130,284
Correspondent accounts	4,401	7,266	4,809	7,969	15,331	4,717
Subordinated debt	126,127	208,236	125,675	208,244	317,830	332,306
Total amounts due to credit institutions	**893,813**	**1,475,686**	**1,000,098**	**1,657,162**	**921,172**	**1,138,927**

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

(3) Borrowings from international credit institutions include loans from EBRD, IFC, ADB, OPIC, FMO and EFSE (each as defined below), WorldBusiness Capital Inc., Merrill Lynch & Co. Inc, Citibank International plc, BG Finance B.V., Semper Augustus HBK and others.

(4) Time deposits and inter-bank loans represent advances from credit institutions used by the Group to manage its short-term liquidity needs.

The Group has obtained a number of loans from credit institutions, including commercial banks and international development financial institutions. The following are the most significant of these loans, which are or were outstanding during the periods under review:

- In June 2008, the Bank obtained a US$30.0 million, 10-year subordinated loan from Nederlandse Financierings-Maatschappij voor ontwikkelingslanden N.V. ("**FMO**") and Deutsche Investitions und Entwicklungsgesellschaft mbH ("**DEG**"). As of 30 June 2013, the aggregate amount outstanding under this loan facility was US$30.0 million.

- In December 2008, the Bank obtained a US$29.0 million, 10-year senior mortgage facility and a US$10 million, 10-year subordinated loan facility from the Overseas Private Investment Corporation ("**OPIC**"). As of 30 June 2013, the aggregate amount outstanding under these loan facilities was US$27.7 million.

- In December 2008, the Bank signed agreements with IFC and EBRD relating to loan facilities in an aggregate amount of US$200.0 million, comprised of a separate US$100.0 million financing package on substantially the same terms from each of IFC and EBRD. The US$100.0 million financing package provided by each of IFC and EBRD was comprised of a US$50.0 million senior loan, a US$23.9 million subordinated loan and a US$26.0 million convertible subordinated loan (together, the "**2008 IFC and EBRD Loans**"). In February 2012, in connection with the Tender Offer (defined below) and pursuant to an irrevocable undertaking and lock-up agreement between the Bank, Bank of Georgia Holdings PLC ("**BGH**") and each of EBRD and IFC, both EBRD and IFC converted part of their respective convertible subordinated loans into a total of 1.8 million shares of the Bank. (See "*Equity Funding—Tender Offer*" below) As of 30 June 2013, the aggregate amount outstanding under these loan facilities was US$72.7 million.

- In May 2009, the Bank entered into an ISDA Master Agreement with IFC, pursuant to which from time to time the Bank enters into interest rate swaps with IFC to hedge its US dollar interest rate risk on its outstanding long-term borrowings.

- On 11 November 2010, the Bank entered into a framework agreement and two individual loan agreements with the European Fund for South East Europe ("**EFSE**"). The individual loan agreements related to two loan facilities in the aggregate amount of US$50.0 million for SME and housing financing. As of 30 June 2013, the aggregate amount outstanding under these loan facilities was US$50.0 million.

- On 1 December 2010, the Bank signed an agreement with the Asian Development Bank ("**ADB**") relating to a five-year loan facility in the amount of US$50.0 million for SME financing. As of 30 June 2013, the aggregate amount outstanding under this loan facility was US$31.3 million.

- On 24 October 2011, Aldagi obtained a seven-year US$11.9 million export credit facility from ING Bank for the project, guaranteed by the Bank. The interest rate payable under the facility is 1.90% plus US dollar LIBOR plus any "mandatory cost" (being the percentage rate per annum calculated by ING Bank to cover the cost of compliance with the Bank of England and FCA requirements or the requirements of the European Central Bank) per annum. The facility is due for repayment in 14 equal instalments payable semi-annually, starting not later than 20 months after 24 October 2011 (i.e., April 2013) and ending no later than the date 78 months after the first repayment. As of 30 June 2013, the aggregate amount outstanding under the facility was US$10.6 million.

- On 17 November 2011, the Bank obtained a five-year US$14.4 million debt facility from the EBRD to finance loans to the agricultural sector. As of 30 June 2013, the aggregate amount outstanding under the facility was US$14.5 million

- On 16 December 2011, m2 Real Estate signed a US$20.0 million five-year loan agreement with FMO to finance the development of an affordable housing project in Tbilisi with a gross buildable area of approximately 63,000 square metres. As of 30 June 2013, the aggregate amount outstanding under the loan facility was US$10.0 million.

- On 23 December 2011, the Bank signed a US$40.0 million six-year joint facility agreement with FMO and DEG to support the growth of the Bank's SME loan portfolio. As of 30 June 2013, the aggregate amount outstanding under the loan facility was US$36.0 million.

- On 28 February 2013, the Bank signed a €5.0 million one-year loan agreement with Demir-Halk Bank (Nederland) N.V. ("**DHB Bank**"). As of 30 June 2013, the aggregate amount outstanding under the loan facility was €5.0 million (US$6.5 million).

- On 28 May 2013, JSC m2 Real Estate signed a US$14.0 million loan with IFC (with the support of the Government of Canada) to support its energy efficient, affordable and quality housing projects in Georgia. As of the date of this Prospectus, funds have not been drawn down from this facility. The Bank of Georgia group companies expect to pledge M2 Real Estate shares in favour of IFC to secure a drawdown.

- During November 2013, the Bank is expected to sign a US$10.0 million loan agreement with Citi, with the support of OPIC, to promote the financial inclusion of micro-entrepreneurs and small businesses in Georgia. As of the date of this Prospectus, funds have not been drawn down from this facility.

As of 30 June 2013, the Group had undrawn long-term loan facilities from credit institutions in the aggregate amount of US$94.2 million (excluding the participation agreement with EBRD discussed below). For further information, see Note 11 (*Amounts due to Credit Institutions*) to the Unaudited Financial Statements as of and for the six months ended 30 June 2013.

Most of the foregoing US dollar loans bear fixed or floating interest rates tied to LIBOR. Interest rates for the Group's US dollar borrowings (including subordinated facilities) in 2012, 2011 and 2010 ranged from LIBOR plus 1.3% to 11.65%. In the first half of 2013, interest rates for the Group's US dollar borrowings (including subordinated facilities) ranged from LIBOR plus 1.9% to 11.33%. The Bank enters into interest rate swaps to hedge its exposure to floating-rate interest. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Years Ended 31 December 2012, 2011 and 2010—Net Gains (Losses) from Derivative Financial Instruments*".

In July 2009, the Bank and EBRD signed an amended and restated participation agreement, pursuant to which EBRD has made available an additional US$20 million co-financing for the Bank's corporate customers which may be used for term lending for a period of up to eight years from the date of amendment, as well as revolving credit lines for working capital needs. The original participation agreement was signed in June 2005 and provided financing in an aggregate amount of US$5.0 million. The facility enables EBRD to co-finance the Bank's corporate customers together with the Bank, without recourse to the Bank, fully bearing the Georgian corporate risk. As of 30 June 2013, the aggregate amount utilised under this loan facility was US$0.9 million.

As of 30 June 2013, the Bank had trade finance lines from EBRD (€55 million), IFC (US$65 million), ADB (US$15 million), Commerzbank (€25 million), Citibank N.A. (US$22 million), BNP Paribas (US$6 million), UBS (CHF 10 million), Ziraat Bank (US$9 million), ING Bank (€5 million), Bank Austria (€5 million), Cargill Financial Services (US$26 million), JP Morgan (US$5 million) and Atlantic Forfaiting Company plc (US$3 million).

Certain of the Bank's financing agreements with commercial banks and financial institutions (the "**Financing Agreements**") (as defined below) require the Bank's continuing compliance with certain financial covenants including, but not limited to, maintaining certain ratios with respect to capital adequacy, liquidity, foreign currency position, credit exposures and net loans to deposit ratio. Between 31 March 2010 and the end of December 2010, the Bank was in breach of a covenant to keep net non-performing loans (defined for these purposes as (i) the aggregate amount of all gross loans in respect of which any amounts have been outstanding for a period of more than ninety (90) days after the relevant due dates provided for under the relevant loan agreements; (ii) the gross loans restructured due to the relevant borrowers' inability to meet their payment obligations under the relevant loan agreement; and (iii) any other gross loans which in the reasonable opinion of the Bank's management (with the passage of time or otherwise) may qualify as non-performing loans under (i) and/or ii)) below 10% of its Tier 1 regulatory capital. The Bank sought and obtained a waiver in respect of such breach from the relevant lenders and the Bank has been in compliance with this covenant since the end of December 2010. As of 30 June 2013, the Group was in compliance with all the financial covenants under the Financing Agreements. Moreover, certain of the Group's Financing Agreements carry restrictions on mergers, corporate restructuring, the payment of dividends above certain thresholds, disposal of assets, acquisitions, and/or liens on its assets. In the case of the subordinated facilities, the Bank has an option in each case to prepay after the fifth anniversary of the disbursement date, with the consent of the NBG. The OPIC subordinated loan allows prepayment at any time, with the consent of the NBG. Unsubordinated facilities generally allow flexibility in terms of prepayment.

Group entities have also issued a number of debt securities. In February 2007, BG Finance issued the 2012 Notes for the sole purpose of funding a loan to the Bank. The issuance of the 2012 Notes was the debut Eurobond transaction in Georgia. On 8 February 2012, the 2012 Notes were redeemed in full on their maturity.

On 5 July 2012, the Bank issued the Existing Notes. The Regulation S / Rule 144A five year senior unsecured notes carry a 7.75% coupon rate per annum, paid semi-annually, and were issued and sold at closing at a price of 99.491% of their principal amount. The Existing Notes are rated "BB-" by Fitch, "Ba3" by Moody's and "BB-" by Standard & Poor's. The Existing Notes are listed on the Official List of the UK Listing Authority and admitted to trading on the Market.

Equity Funding

While customer accounts and loans are the Bank's principal sources of funding, the Bank has also raised capital through the issuance of new shares in the Bank in the past (see "*Description of Business—History and Development*"). However, the Bank has not raised capital through the issuance of new shares in the Bank since 1 January 2008 (excluding the issuance of shares following the conversion of debt instruments by EBRD and IFC).

Tender Offer

On 24 February 2012, BGH announced that EBRD and IFC had converted part of their respective loans to the Bank into Bank shares and accepted BGH's tender offer to acquire the entire issued and to be issued share capital of the Bank (the "**Tender Offer**") with respect to such Bank shares (the "**Loan Conversion**"). A total nominal (contractual) amount of US$49,903,083 of the loans was converted into 3,635,006 newly issued ordinary shares of the Bank. After this conversion, the Bank's Tier 1 and Total Capital adequacy ratios, in accordance with NBG regulations, comprised 15.3% and 17.9% as of 29 February 2012, respectively.

The Tender Offer expired on 24 February 2012 at 5:00 pm, London time. Valid acceptances of the Tender Offer were received in respect of 98.17% (before the Loan Conversion) and 98.35% (after the Loan Conversion) of the Bank's issued and outstanding share capital. On 29 February 2012, BGH announced that: (i) all of the conditions for the successful completion of the Tender Offer had been satisfied, or, where permitted, waived; (ii) 35,909,383 BGH shares had been admitted to trading on the premium segment on the Official List of the UK Listing Authority and to trading on the London Stock Exchange's Main Market for listed securities under the ticker "BGEO.LN"; and (iii) accordingly, the Tender Offer was unconditional in all respects. On 6 June 2012, the Bank announced that it had terminated the deposit agreement in respect of all outstanding GDRs (the "**Deposit Agreement**") in accordance with its terms. The Bank also announced that the listing of all of its GDRs on the Official List of the UK Listing Authority and the admission of its GDRs to trading on the London Stock Exchange's Main Market for listed securities had been cancelled. Since 15 June 2012, BGH's shares are included in both the FTSE 250 Index and the FTSE All Share Index.

DESCRIPTION OF BUSINESS

Unless otherwise noted, all information relating to the Group's market ranking and market share is based on information published by the NBG as of 30 June 2013 based on standalone financial information filed with the NBG by Georgian banks.

Overview

The Group's strategic businesses are retail banking and corporate banking, as well as investment management. Bank of Georgia is the leading bank in Georgia based on total assets (with a 34.7% market share), total gross loans (with a 34.0% market share) and total customer deposits (with a 32.0% market share). The following tables set forth selected consolidated figures relating to the Group as of the dates specified:

	As of 30 June		As of 31 December			
	2013		2012		2011	2010
	(unaudited)		*(audited)*			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of US dollars)[2]*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Total assets	3,487,307	5,757,544	3,456,256	5,727,018	4,665,261	4,004,922
Loans to customers, net	1,882,488	3,107,988	1,830,819	3,033,667	2,553,442	2,351,697
Amounts due to customers	1,727,906	2,852,772	1,625,241	2,693,025	2,735,222	2,026,308
Total equity	715,273	1,180,916	681,826	1,129,786	812,603	693,341

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

	For the six months ended 30 June			For the year ended 31 December			
	2013		2012	2012		2011	2010
	(unaudited)			*(audited)*			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of US dollar[2])*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Profit (loss) for the period	58,574	96,705	87,143	110,287	182,745	135,710	82,667

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

As of 30 June 2013, the Bank had one of the largest distribution networks in Georgia, with 197 branches, including full-service flagship branches, standard branches and Express Banking branches (including Metro branches (i.e., small branches located in metro stations)), the largest ATM network in Georgia, comprising 481 ATMs, 870 Express Pay (self-service) terminals, a full-service remote banking platform and a modern call centre. As of the same date, the Bank served 1,172,652 retail banking customers (of which more than 100,000 were legal entities and more than 1,000,000 were individuals) and 7,718 corporate banking customers. The banking businesses (excluding BNB) generated 81.0% and 83.2%, respectively, of the Group's total revenue in the six months ended 30 June 2013 and in the year ended 31 December 2012.

In addition to its strategic businesses, the Group also provides, insurance and healthcare, affordable housing and brokerage services throughout Georgia that enable the Bank to leverage its customer base, distribution networks and sales force.

The Group's operations include:

Bank of Georgia Group

Strategic businesses:

- Retail banking
- Corporate banking
- Investment Management

Synergistic businesses:

- Insurance
- Healthcare
- Affordable housing
- Domestic brokerage

Non-core businesses:

- BNB Belarus banking operations
- Liberty Consumer Private Equity
- Other investments

- *Strategic businesses.*
  - *Retail banking:* Bank of Georgia is the leader in retail banking through its market leading distribution network and market shares with a market share of 30.6% (based on deposits from individuals) and at least three times more branches then the next three largest banks in Georgia and an ATM network at least twice as large as its main competitor's ATM network collectively, in each case as of 31 December 2012 according to publicly available information. As of 30 June 2013, the Bank held 29.7% market share based on deposits from individuals and a 31.0% in retails loans which was the largest market share by retail loan book as of such date, according to the NBG. Bank of Georgia's retail banking products and services include retail lending, deposit accounts, ATM services, internet, telephone and SMS banking, utility bill payments and other money transfer services. The Group's credit card operations serve more than 111,000 card holders, and the Group is the exclusive issuer of American Express credit cards in Georgia through 2024. As of 30 June 2013, the Bank had 1,172,652 retail banking customers (of which 1,070,994 were individuals and the remainder legal entities), a retail loan portfolio of GEL 1,537.3 million (US$931.2 million) and retail client deposits of GEL 931.7 million (US$564.3 million). For the six months ended 30 June 2013 and for the year ended 31 December 2012, the Group's retail banking business generated revenue of GEL 126.1 million (US$76.4 million) and GEL 246.3 million (US$148.6 million), respectively, corresponding to 48.1% and 49.4%, respectively, of the Group's total revenue for the respective periods.
  - *Corporate banking:* Bank of Georgia is a leader in corporate banking, with a market share of 34.4% based on total customer deposits and 36.5% based on total corporate loans as of 30 June 2013, according to the NBG. The Bank provides corporate lending and finance leasing (principally in US dollars) in addition to offering current and deposit accounts, account administration and cash management services, payroll services, trade financing and foreign exchange services. As of 30 June 2013, the Bank had 7,718 corporate banking customers, a corporate loan portfolio of GEL 1,670.6 million (US$1,011.9 million) and corporate client deposits of GEL 1,296.8 million (US$785.5 million). For the six months ended 30 June 2013 and for the year ended 31 December 2012, the Group's corporate banking business generated revenue of GEL 80.6 million (US$48.8 million) and GEL 154.8 million (US$93.4 million), respectively, corresponding to 30.7% and 31.0%, respectively, of the Group's total revenue for the respective periods.
  - *Investment Management:* Bank of Georgia's investment management business attracts deposits from wealthy local and international customers. In line with the Bank's strategy of expanding the sale of investment management deposit products and services internationally, the Bank has set up subsidiary companies in Tel Aviv, London and Budapest, which provide information services to investment management customers. Most recently, the Bank combined its advisory brokerage, research and asset and wealth management business into its investment management segment, to develop and expand its fee generating businesses. In the near future, the Group expects to begin marketing investment products, starting with a regional money market fund that will invest in local and foreign currency denominated short-and medium-term debt instruments issued in Georgia and neighbouring countries, to add an additional revenue stream to its investment management business. For the six months ended 30 June 2013 and for the year ended 31 December 2012, the Group's investment management business generated revenue of GEL 5.6 million (US$3.4 million) and GEL 13.9 million (US$8.4

million), respectively, corresponding to 2.1% and 2.8%, respectively, of the Group's total revenue for the respective periods.

For the six months ended 30 June 2013 and for the year ended 31 December 2012, the Group's strategic businesses generated revenue of GEL 212.4 million (US$128.6 million) and GEL 415.0 million (US$250.4 million), respectively, corresponding to 81.0% and 83.2%, respectively, of the Group's total revenue.

- *Synergistic businesses*.
  - *Insurance and healthcare:* Through its wholly-owned insurance subsidiary, Aldagi (formerly Aldagi BCI), the Group is the leading provider of life and non-life insurance products in Georgia, based on a market shares of 33.3% of the life and 31.8% of the non-life insurance markets as of 31 December 2012 (based on gross premium revenue). Aldagi covers more than 700,000 insured and offers a broad range of product lines designed for corporate and retail clients through its own network of nine branches and benefits from access to the Bank's distribution channels. The Group is particularly focused on the under-developed health insurance segment as a growth opportunity. In addition, with the aim of capturing as revenue a portion of the health insurance claims of its insurance operations, Aldagi has completed the vertical integration of its insurance and healthcare businesses. Since entering into the healthcare sector in 2006, Aldagi has grown its healthcare business to a market leading position, both organically and through mergers and acquisitions. As of 30 June 2013, Aldagi owned and operated 32 clinics, with 1,221 hospital beds throughout Georgia. The majority of Aldagi's clinics (22 in total) are concentrated in Western Georgia, where due to limited competition Aldagi is a dominant player in the healthcare sector. Operating a chain of healthcare centres within a region enables Aldagi to make cross-referral of patients between inpatient and outpatient clinics. The vertically integrated insurance and healthcare business enables Aldagi to up-sell insurance products with the goal of eventually capturing a majority of healthcare spending in Georgia. For the six months ended 30 June 2013 and for the year ended 31 December 2012, the Group's insurance and healthcare businesses generated revenue of GEL 29.4 million (US$17.8 million) and GEL 55.1 million (US$33.2 million), respectively, corresponding to 11.2% and 11.0%, respectively, of the Group's total revenue for the respective periods.
  - *Affordable housing:* Through its wholly-owned subsidiary, m2 Real Estate, the Group holds real property, primarily in Tbilisi, which the Group acquired through loan work-outs and repossessions from the Bank's defaulted borrowers. m2 Real Estate develops and sells affordable residential apartments and manages such investment properties. m2 Real Estate has completed a 123 apartment project and is currently in the process of developing a 522 apartment project. m2 Real Estate plans to continue developing its affordable housing business, including the development and sale or leasing of approximately 1,300 flats within the next three to four years, to support its strategic retail mortgage lending business, to improve the liquidity of its repossessed real estate assets, and to capitalise on the current unsatisfied demand for affordable housing in Tbilisi (which has depreciated housing stock and an average household size of 3.6, according to the Georgian Residential Market Report prepared by Gremo and Jones Lang Lassale. The Group intends to outsource the construction and architecture works and to focus on project management and sales as it believes that the Bank's well-established brand name and superior distribution channels (including 197 branches and 2,044 sales staff as of 30 June 2013) will assist it in marketing its properties and mortgages.
  - *Domestic brokerage:* The Group provides brokerage and investment banking services in Georgia through its subsidiary, BG Capital. The Group believes that its Georgian brokerage and investment banking services provide synergies with its strategic investment management and corporate banking operations. In order for the Group to focus on its strategic businesses, the Bank's subsidiary, BG Capital, exited from its brokerage operations in Ukraine in February 2011.

For the six months ended 30 June 2013 and for the year ended 31 December 2012, the Group's synergistic businesses generated revenue of GEL 36.9 million (US$22.4 million) and GEL 60.3 million (US$36.4 million), respectively, corresponding to 14.1% and 12.1%, respectively, of the Group's total revenue.

  - *Non-core businesses*. The Group's non-core businesses comprise BNB and Liberty Consumer. Through BNB, the Bank's subsidiary, the Group provides retail banking and corporate banking services in Belarus. Most of the Group's other investments are held through Liberty Consumer, a Georgia-focused investment company in which the Bank holds a 68% stake. For the six months ended 30 June 2013 and for the year ended 31 December 2012, the Group's non-core businesses generated revenue of GEL 16.1 million (US$9.7 million) and GEL 27.9 million (US$16.8 million), respectively, corresponding to 6.1% and 5.6%, respectively, of the Group's total revenue for the respective periods. The Group intends to exit from its other non-core operations, including through the sale of Liberty Consumer, its remaining equity interest in BG Bank and in due course its interest in BNB.

Bank of Georgia is incorporated as a joint stock company under the laws of Georgia under the name Joint Stock Company Bank of Georgia. The Bank was registered under number 06/5-07 by Krtsanisi District Court on 29 November 1995. Prior to the Bank's incorporation as a joint stock company, the Bank was established through the privatisation of the state bank "Binsotsbank". The Bank obtained a banking licence (number 86) from the NBG on 15 December 1994. The registered address of the Bank is 29a Gagarini Street, Tbilisi, Georgia, 0160 and the telephone number is +995 32 2 444 444. The Bank is registered with Tax Inspection of Large Taxpayers under the number 204378869.

Strengths

Management believes that the Bank benefits from the following competitive strengths:

- *Leading market position in an under-penetrated market with significant growth potential*. The Group conducts its operations predominantly in Georgia, where the majority of its customers and assets are located. Bank of Georgia led the Georgian market in terms of total assets, total gross loans to customers and customer deposits as of 30 June 2013, according to the NBG. As of 30 June 2013, Bank of Georgia's regulatory capital was 1.4 times that of the second largest bank in Georgia. The Bank is a leader in the corporate banking segment, with a market share of 34.4% (based on total deposits from legal entities), and in the retail banking segment, with market shares of 31.0% (based on total loans to individuals) as of 30 June 2013. The Bank held 29.7% (based on total deposits from individuals) as of 30 June 2013. From 31 December 2005 to 30 June 2013, on a standalone basis, the Bank nearly doubled its market share as measured by total assets, from 17.8% as of 31 December 2005 to 34.7% as of 30 June 2013, and increased its market share by 15.8% as measured by gross loans and 12.4% as measured by total deposits). From 31 December 2011 to 30 June 2013, as a result of its conservative lending policy and the targeted reduction of costly deposits through significant deposit rate cuts, the Bank decreased its market share in gross loans by 0.5%, and its market share in customer deposits by 4.9%. Bank of Georgia has maintained its market-leading position for more than seven years. According to research conducted by TNS (a custom market research specialist) in April 2013 relating to Georgian banks, the Bank has the highest spontaneous brand awareness among Georgian banks (95%). The Group's insurance subsidiary, Aldagi, is the leading provider of life and non-life insurance products in Georgia, with a market share of 33.3% of the life and 31.8% of the non-life insurance markets, as of 31 December 2012 (based on gross premium revenue).
- *Growing under-banked market with solid macro fundamentals.* Georgia's relatively high real GDP growth despite the recent economic slowdown (6.1% CAGR from 2004 to 31 December 2012), have contributed to the development of the banking sector. From 31 December 2004 to 31 December 2012, loan penetration (total gross loans to GDP) within Georgia increased from 9.6% to 33.7%, deposit penetration (total deposits to GDP) increased from 10.0% to 31.4% and banking sector gross loans and deposits increased at a CAGR of 32.1% and 30.4%, respectively, based on data from the NBG. Despite this growth, in 2012, banking penetration in Georgia (measured according to the total loans to GDP ratio) remained significantly below that in the Euro zone, Central and Eastern European[2] markets and major countries of the former Soviet Union[3] (with banking penetration (measured according to the total loans to GDP ratio) of 193.0% in the Euro zone, 63.6% in Central and Eastern European[1] markets and 39.4% in major countries of the former Soviet Union[2], each as of December 2010, according to Business Monitor International). This, combined with preliminary real GDP growth in Georgia of 6.1% in 2012 and projected real GDP growth of 4.0% in 2013 and 5.0% in 2014 (according to an IMF report published in October 2013), suggests that the Georgian banking industry has significant further growth potential. In particular, such growth is expected to come to a large extent from an increase in loans to households, which represented only 13.8% of GDP as of 1 January 2013. As a result of its

[2] Bosnia, Bulgaria, Czech Republic, Croatia, Hungary, Latvia, Poland, Romania, Slovenia and Slovakia

[3] Russia, Ukraine, Kazakhstan

leadership position and extensive distribution network, the Bank Management Board believes that the Bank is well-placed to capitalise on expected growth in the Georgian banking industry.

- *Prudent risk management and focus on sound asset quality.* The Bank follows stringent risk management policies and procedures and has conservative credit approval processes and underwriting criteria, all of which are intended to maintain the quality of its assets as its loan portfolio grows. It also has an integrated control framework encompassing operational risk management and control, anti-money laundering compliance and corporate and information security. The Bank's cost of risk has not exceeded its net interest margin at any time since December 2008, while its loans past-due more than 90 days coverage ratio adjusted for discounted value of collateral has remained over 100% since December 2009.

- *Transparency and robust corporate governance*. The Bank has a culture of transparency and has been complying with the obligations applicable to it under the UK Listing Authority Listing Rules and Disclosure Rules since November 2006, when it became the first Georgian entity to list its GDRs on the London Stock Exchange. Since 2011, the Group has complied with the more stringent corporate governance standards to which it became subject when it restructured to add a UK incorporated holding company, Bank of Georgia Holdings PLC, whose shares were subsequently admitted to trading on 28 February 2012 on the premium segment of the Official List and to trading on the London Stock Exchange's Main Market. The Bank also adheres to a robust corporate governance policy. The Bank Supervisory Board is comprised of seven non-executive members, five of whom are independent directors, including the Chairman and the Vice-Chairman, (see "*Directors, Senior Management, Corporate Governance and Employees—BGH Corporate Governance Policy and Board Committees*") with backgrounds in banking and financial services, asset management, corporate law and management consulting (among others).

- *Strong liquidity and regulatory capital*. The Bank is well-capitalised and maintains strong liquidity positions. According to Basel I standards, the Group had a Tier I capital ratio of 22.6% and 22.2% and a total capital ratio of 28.2% and 27.4%, respectively, as of 30 June 2013 and 31 December 2012, respectively. According to NBG standards, on a stand-alone basis, the Bank had a Tier I capital ratio of 15.4% and 13.8% and a total capital ratio of 16.3% and 16.2%, as of 30 June 2013 and 31 December 2012, respectively. All such NBG ratios are in excess of the minimum ratio requirements of 8% for Tier I capital and 12% for total capital. The Bank also maintains a strong liquidity position, with an NBG liquidity ratio (average liquid assets during the month (as defined by the NBG) divided by average total deposits plus average-borrowed funds with effective maturity of less than six months plus certain off balance sheet commitments maturing within six months) of 44.8% and 41.1% on a stand-alone basis as of 30 June 2013 and 31 December 2012 respectively, which was, in each case, above the NBG requirement of 30%. See "*Regulation of the Georgian Banking Sector*". Management believes that the Group's liquidity and solid capitalisation assisted the Bank during the global economic downturn as customers viewed the Bank as a stable and safe financial institution. As a result, the Bank Management Board believes that the Bank will continue to be able to capitalise on the expected economic recovery.

- *Leading retail banking franchise and brand recognition.* Management believes that the Bank offers the most comprehensive range of financial products in the Georgian retail market and since the launch of Express Banking, the Bank has further advanced its retail banking franchise and established itself as an undisputed market leader in transactional banking. As of 30 June 2013, the Bank had one of the widest distribution networks in Georgia with 197 branches, the country's largest ATM network, comprising of 481 ATMs, 870 Express Pay (self-service) terminals, 4,259 point-of-sale ("**POS**") terminals, a universal remote banking platform and a modern call centre. In particular, Management believes that the Bank's extensive distribution network in Georgia gives it a strong platform from which it can cross-sell and up-sell its products and services to new and existing customers. Management also believes that Express Banking is one of the main drivers of new emerging banking client acquisitions. Since its inception at the end of 2011, the Bank opened 39 Express branches (excluding Metro branches) and 221 Express Pay (self-service) terminals by December 2012. In the first six months of 2013, the Bank added 649 new Express Pay (self-service) terminals and has attracted over 118,000 new clients, leading to approximately 125,000 new current accounts being opened during the period. Bank of Georgia's diversified product offering and distribution network assist it in cross-selling products between its retail and corporate customer bases and between its synergistic and banking businesses. The Bank has exclusive arrangements to issue American Express cards and provide acquiring services in Georgia, as well as licenses to issue Bank of Georgia-branded contactless cards to users of the Tbilisi municipal metro and bus transport payment system. The Bank has, with advice from international brand consultants, applied a unified branding strategy to branch design, advertising and corporate communications, including through social media. This strategy is tailored to customer segments while supporting the Bank's master brand. Management believes that the Bank's brand identity supports its retail franchise and promotes customer loyalty.

- *Experienced management with a deep understanding of the local market.* The Bank's senior management team is comprised of experienced, primarily Western-educated and trained professionals with significant domestic banking, international investment banking and insurance expertise and an average of just over ten years' of management experience in the banking and insurance industry. Since the appointment of the current management team in the fourth quarter of 2004, the Bank has: grown approximately 15 times in asset size, while maintaining an emphasis on asset quality and conservative risk management policies; increased its total market share, measured by total assets, from 19% to 34.7% by entering the retail banking segment and improving access to capital; diversified its business; established itself as a borrower in the international markets; attracted new institutional equity investors; and strengthened its transparency and corporate governance policies and procedures. At the same time, the Bank has continued to invest in its credit approval and loan loss provisioning systems and its loan collection systems and software and to develop its human resources policies. Management believes that these factors, together with its strong understanding of the Georgian market and the local financial services sector, have given the Bank streamlined and efficient credit approval and decision-making processes that allow it to respond rapidly to market developments. These are attractive and important factors and qualities for corporate and retail banking customers and also enable the Group to tailor its strategy and product offering to the local market.

Strategy

Following a strategic review of the Group's operations in 2011, the Bank Supervisory Board (on the recommendation of the Bank Management Board) determined that the Group would concentrate on the high-growth Georgian market rather than pursue its previous international expansion strategy, and would also focus on the development of synergistic business opportunities by leveraging the Bank's leading market position in the Georgian banking sector. In order for the Group to focus on its strategic businesses, the Bank's subsidiary, BG Capital, exited from its brokerage operations in Ukraine in February 2011 and intends to exit from its other non-core operations, including through the sale of Liberty Consumer, its remaining equity interest in BG Bank and its interest in BNB.

The Group's overall objective remains unchanged – to maximise return on average equity ("**ROAE**") by pursuing opportunities for profit-accretive growth through the expansion of its loan book, while maintaining strong asset quality supported by a growing deposit base and increased operating efficiencies. The Bank also aims to grow its non-interest income, mainly through further developing its synergistic businesses and concentrating on growing its fee generating capabilities.

The key elements of the Group's business strategy are set out below.

- *Maintain its leading position in the growing and still under-penetrated Georgian banking market.* In general, in recent years, according to information published by the NBG, the Bank has continued to grow and gain market share. From December 2005 to 30 June 2013, the Bank doubled its market share as measured by total assets, from 17.8% as of December 2005 to 34.7% as of 30 June 2013, and increased its market share by 15.8% as measured by gross loans and 12.4% as measured by total deposits. From 31 December 2011 to 30 June 2013, as a result of its conservative lending policy and the targeted reduction of costly deposits through significant deposit rate cuts, the Bank decreased its market share in gross loans by 0.5%, and its market share in customer deposits by 4.9%. The Bank intends to continue to focus on growth within the expanding but still under-penetrated domestic Georgian banking market, with particular emphasis on retail banking. The Bank Management Board believes that, with a ratio of loans to households to GDP of only 13.8% as of 1 January 2013 retail banking offers particularly high growth potential. Bank of Georgia has launched its Solo Banking (premier banking service) and new products to attract mass affluent customers. The Bank has also moved its SME banking products and services from its corporate banking segment to its retail banking segment to offer SME customers dedicated products and services in its retail branches and a more personalised service. In addition, on 14 December 2011, the Bank announced the launch of its Express Banking service aimed at mass market and emerging mass market customers. The Bank's Express Banking Service comprises a chain of small-size Express Pay (self-service) terminals and remote transactional banking facilities. The Bank's aim is to provide fast, accessible, cost-effective and competitively-priced services through a network of dedicated branches to free up flagship branches, which generally sell higher value-added services and products, to improve cross-selling and up-selling of its products and services and to acquire new emerging (i.e. previously unbanked or underbanked) client bases. It also aims to transition retail banking customers to use remote banking and self-service terminals to enable the Bank to increase efficiency.

- *Focus on profitable growth*. From 2008 to 30 June 2013, the Group's gross loans increased from GEL 2,145.6 million to GEL 3,224.9 million (or by 50.3%) and amounts due to customers increased from GEL 1,193.1 million to GEL 2,852.8 million (or by 139.1%). Management sees opportunities to further increase the Group's lending activities and deposits. In pursuing growth, the Group will continue to focus on maintaining its profitability. From 2008 to 2012, the Group's net income grew from GEL 0.2 million to GEL 182.7 million and ROAE increased from 0.6% to 19.3%. From 2008 to 30 June 2013, the Group's cost of risk (which represents the ratio of impairment of interest-earning assets to average interest-earning assets) decreased from 5.3% to 1.1% and the Group's consolidated currency-blended loan yield decreased from 18.9% to 16.5%. Management believes that the Bank's platform will allow it further to significantly increase the scale of its businesses at relatively low marginal costs. The Bank seeks to continue to redesign and enhance its banking product range with an emphasis on well-designed, packaged products that are suitable for cross-selling and up-selling. The Bank will also seek to continue to realise efficiencies, for instance, continuing to invest in IT, promoting the transition of retail banking customers to use remote banking and increasing the number of self-service terminals, which will further support the Bank's profitability.
- *Increase the Bank's loan portfolio while maintaining asset quality.* According to the IMF, real GDP in Georgia is projected to increase by a CAGR of 5.6% from 2013 to 2016. Management expects that loan penetration rates in Georgia will continue to increase over the same period. Already a leader in Georgia's mass retail and corporate banking segments, the Bank will seek to capture this expected growth to expand its loan portfolio and deposit base, by expanding its retail and corporate portfolios, capturing the new emerging (previously unbanked or underbanked) population and targeting mass affluent customers (customers with an income in excess of GEL 3,000 a month who are not investment management customers) and SME customers (businesses that have a total annual turnover of less than GEL 5.0 million and/or that are applying to borrow up to US$500,000).
- *Further improve cost of funds while funding the growth of its loan book mainly through customer deposits on the back of improved deposit costs.* Bank of Georgia intends to continue to improve the quality and cost of its funding while focusing on funding growth in its loan book mainly through customer deposits. The Bank has successfully reduced its cost of deposits resulting in the reduction of average US dollar denominated deposit rates by 300 basis points since the beginning of 2013 through June 2013. As of 30 June 2013, the term deposit contractual rates on US dollar deposits were 5.0%, the lowest rate offered by a bank in Georgia. As a result of targeted liability management, the Bank reduced its cost of deposits to 6.2% in the first six months of 2013, as compared to 7.5% in the first six months of 2012. The deposit rates were reduced successfully, without compromising the growth of client account balances, which grew by 5.9% from GEL 2,693.0 million as of 31 December 2012 to GEL 2,852.8 million as of 30 June 2013. In the first half of 2013, the Bank's cost of funds was 6.3%, as compared to 7.1% for the full year 2012 and 7.6% in the first half of 2012. The Group's consolidated amounts due to customers have grown from GEL 1,193.1 million to GEL 2,852.8 million, or 139.1%, from 31 December 2008 to 30 June 2013. The Bank Management Board expects deposits to continue to increase over the same period. In addition to its regular sources of funding (corporate and mass retail deposits), the Bank intends to focus on increasing funding from wealthy, as well as mass affluent customers (where it is currently underrepresented in terms of market share). The Bank also aims to increase the number of international investment management customers that use its deposit products and services as it seeks to further broaden the sources of its deposit funding.
- *To improve cost efficiency including through the continuous investment and improvement of systems and technology to increase operational efficiency.* The Group decreased its consolidated cost to income ratio from 57.4% in 2010 to 43.8% in 2012, in part, through operating efficiencies from centralising back office functions. The Bank is continuing to invest in IT and is in the process of rolling out new loan origination, management and administration systems to automate and improve the Bank's retail loan application processes. The rollout of the new loan origination system, which was completed in the first quarter of 2012, enables electronic processing of documentation and allows retail underwriters access to an up-to-date credit

history snapshot ("**single customer view**") and to determine shadow limits. The Bank has also invested in an automated loan collection system to enable the Bank to manage the overdue loans portfolio effectively and improve debt collection rates. The system is also able to automatically generate notifications of overdue payments in respect of retail banking customers. The Management believes these developments have led to improvements to its loan monitoring and collection capability and assist the Bank to sell additional products to its customers while further reducing the back office function. The Bank is also in the process of implementing a new automated human resource management system, intended to identify talent within the Bank, reduce the cost of external hiring through internal promotions and provide a useful analytical tool to monitor employee performance and development. In addition, in line with Group's aim to further improve its cost efficiency, the Bank launched its Express Banking strategy, which entails the roll-out of cost-efficient small-sized express branches to further shift towards electronic channels and away from standard and flagship branches. As a result of the Express Banking strategy, coupled with overall cost control measures, in 2012, the Group's revenue increased by 15.0% between 2012 and 2011, while cost base continued to improve as operating expenses increased by 4.0%, as compared to 2011. Consequently, the Bank's cost to income ratio in 2012 declined to 43.8%. In the first half of 2013, Management continued its focus on cost management, which coupled with the further rollout of Express Banking resulted in the decrease of operating expenses by 0.7% to GEL 107.7 million from GEL 108.4 million in the first half 2012, while revenue increased by 9.6% between the same period. In the first half of 2013, the Bank's cost to income ratio was 41.0%, having improved from 45.3%, as compared to the same ratio for the first half 2012. Management expects additional operational efficiencies as a result of these developments.

- *Capture growth and synergies in the Georgian insurance, healthcare and affordable housing sectors*. The Group aims to further diversify its revenue base by increasing and developing its non-interest income sources. To this end, the Group seeks to leverage its more than one million retail banking customers, 197 branches and sales force of 2,044 persons to capture growth opportunities in the Georgian insurance, healthcare and affordable housing markets. The vertical integration of Aldagi, the Group's insurance and healthcare operations enables the Group to increase the concentration of the claims expenditure (of the insurance business) within the Group (through healthcare business). In the years ended 31 December 2012, 2011 and 2010, claims expenditure under Aldagi's health insurance programme amounted to GEL 52.6 million, GEL 26.5 million and GEL 25.7 million, respectively, of which 28.7%, 23.4% and 22.1%, respectively, was captured as revenue in the Group's then existing healthcare centres. In the first six months of 2013 and in the year ended 31 December 2012, claims expenditure under Aldagi's health insurance programme amounted to GEL 42.8 million and GEL 52.6 million, respectively, of which 41.0% and 28.7%, respectively, was captured as revenue in the Group's then existing healthcare centres. The Group will seek to leverage Aldagi's market leading position in the Georgian insurance market and its network of healthcare facilities, one of the few managed healthcare chains in the country, to benefit from the growth of the under-penetrated insurance as well as the healthcare market, with healthcare spending in Georgia amounting to as much as 9.9% of GDP in 2011 according to the World Bank as private expenditure made up 7.7% of GDP, as compared to 2.2% of public expenditure. The country's largest healthcare provider, Aldagi, is well positioned to benefit from recently adopted state-funded universal healthcare coverage, which envisages a shift to universal healthcare coverage in Georgia. In addition, through its wholly-owned subsidiary, m2 Real Estate, the Group aims to support the Group's mortgage lending business and to capitalise on the unsatisfied demand for the housing stock in Tbilisi. m2 Real Estate realised its first profit of GEL 1.7 million in 2012 and released a further profit of GEL 3.8 million in the first half of 2013. In 2012, non-interest income amounted to 43.0% of the Group's revenue, as compared to 34.3% in 2008.
- *Pursue selective acquisitions in Georgia:* The Group may pursue selective acquisition opportunities in the banking, insurance and healthcare industries in Georgia if attractive opportunities arise on commercially acceptable terms.

History and Development

Bank of Georgia traces its roots to 1903 and is the successor to the state-owned Binsotsbank, which was privatised in 1994. In the period of over 15 years since its privatisation, the Bank has undergone several stages of development.

In the mid-1990s, the Bank received a number of credit lines from EBRD, IFC, DEG and other international development financial institutions to fund its growth. In 1997, the Bank co-founded Joint Stock Company Georgian Card ("**Georgian Card**"), a card processing company. In 2000, the Bank became one of the first companies to list its securities on the Georgian Stock Exchange and EBRD acquired a 13.7% shareholding in the Bank. Subsequently, in 2001, DEG acquired an 11.1% shareholding in the Bank. EBRD and DEG sold their respective shares in the Bank in 2005 and 2006. In 2004, the Bank's senior management was replaced by a team made up predominantly of western-trained and educated professionals. In October 2004, the Bank's new management team began to revitalise and modernise the Bank. Between 2004 and 2011, the Bank has grown more than ten times in asset size, diversified its revenue streams, made several acquisitions in line with its strategy, established itself as a borrower in the international markets, attracted several new institutional equity investors, increased its transparency and strengthened its corporate governance policies and procedures. At the same time, the Bank revised its credit, loan loss provisioning and human resources policies.

In the period between 2003 and 2005, the Bank acquired a 100.0% equity interest in Galt & Taggart Securities (subsequently rebranded as BG Capital), which is the biggest brokerage company in Georgia in terms of total assets as of 31 March 2012.

In late 2004, the Bank made several strategic acquisitions. In November 2004, the Bank increased its shareholding in Georgian Card from 19.6% to 50.3% and as of 30 June 2013 the Bank held 56.2% in Georgian Card. The Bank Management Board believes that plastic cards and payment systems in general are a key area for retail banking development. In December 2004, the Bank acquired Joint Stock Company TbilUniversalBank ("**TUB**"), the ninth largest bank in Georgia at the time, based on total assets and equity and according to information published by the NBG. At the time of the acquisition, TUB owned a 60.0% equity interest in GLC. Bank of Georgia increased its ownership in GLC to 100.0% in March 2006. The acquisition of TUB led to an increase of the Bank's market share and customer base, enabling it to add leasing services to its corporate banking activities. It also resulted in the Bank gaining several new experienced members of its management team.

In late 2004, the Bank acquired Joint Stock Company Insurance Company BCI ("**BCI**"), one of the leading insurance companies in Georgia, offering a broad range of insurance services to both corporate and retail customers. Bank of Georgia's presence in the Georgian insurance market was further enhanced in October 2005 when the Bank acquired 100.0% of Joint Stock Company Europace Insurance Company. In December 2006, the Bank, through its wholly-owned insurance subsidiary, BCI, acquired Aldagi, the leading insurance company in Georgia. In June 2007, BCI and Aldagi merged to create "Aldagi BCI". In 2013, following extensive marketing and research analysis, "Aldagi BCI" completed rebranding and the company was renamed to Aldagi. Aldagi is licensed to carry out life insurance and non-life insurance activities. Aldagi also provides healthcare services through its subsidiary which operates several clinics.

In February 2006, the Bank purchased the assets and liabilities of Joint Stock Company Intellect Bank ("**Intellect Bank**"), which was then under temporary administration by the NBG. At the time of the acquisition, Intellect Bank was the ninth largest bank by assets in Georgia, according to information published by the NBG. Although the asset quality of Intellect Bank was weak, Intellect Bank possessed a strong retail customer base. The acquisition of Intellect Bank enabled the Bank to expand its branch network and operations. In addition, the integration of Intellect Bank enhanced the Bank's retail market share through the addition of approximately 23,000 retail customers, gave it a leading position in money transfers and provided additional cross-selling opportunities.

In November 2006, the Bank raised net proceeds of US$128.1 million on the London Stock Exchange through the issuance of over 7.4 million new ordinary shares in the Bank represented by GDRs pursuant to an initial public offering to institutional investors. The GDRs were listed on the Official List of the UK Listing Authority and admitted to trading on the Main Market. Bank of Georgia was the first Georgian company to list its GDRs on the London Stock Exchange. In February 2008, the Bank raised gross proceeds of US$100.0 million on the main market of the London Stock Exchange through the offering and issuance of 4.0 million GDRs. In August 2009, the Bank made a successful application for a block-listing of 43,308,125 GDRs (consisting of 25,335,619 previously listed GDRs and 17,972,506 additional GDRs) on the Official List and for admission to trading on the London Stock Exchange's main market for listed securities. No proceeds were raised in connection with this transaction. In connection with the Tender Offer, on 6 June 2012, the Bank announced that it had terminated the Deposit Agreement in accordance with its terms. See "*Funding—Equity Funding Tender Offer*." The Bank also announced that the listing of all of its GDRs on the Official List of the UK Listing Authority and the admission of its GDRs to trading on the London Stock Exchange's Main Market for listed securities had been cancelled and that BGH shares had been admitted to trading on the premium segment on the official list of the UK Listing Authority and to trading on the London Stock Exchange's Main Market for listed securities under the ticker "BGED.LN". Since 15 June 2012, BGH's shares are included in both the FTSE 250 Index and the FTSE All Share Index.

In late 2006, the Bank acquired a 9.9% interest in Universal Bank for Development and Partnership, a mid-sized bank in Ukraine (subsequently rebranded into BG Bank) and, in October 2007, it acquired an additional 88.85% equity interest in BG Bank, resulting in a total equity interest of 98.77%. On 3 March 2008, the shareholders of BG Bank approved the increase of BG Bank's share capital from UAH 140 million to UAH 265 million through the issuance of 125 million ordinary registered shares. Following the capital increase, the Bank's ownership interest in BG Bank increased to 99.35%. In February 2011, the Group disposed of an 80.0% equity interest in BG Bank, its banking subsidiary in Ukraine, to a number of Ukrainian individuals, and intends to seek to exit from its remaining equity interest in BG Bank at an appropriate time.

In February 2007, BG Finance B.V. issued the 2012 Notes for the sole purpose of funding a loan to the Bank. The issuance of the 2012 Notes was the debut Eurobond transaction in Georgia. On 8 February 2012, the 2012 Notes were redeemed in full on their maturity.

In May 2007, the Bank acquired a 100.0% equity interest in Cascade Bank Georgia (subsequently rebranded into Joint Stock Company Galt & Taggart Bank), one of the smallest banks in Georgia in terms of total assets. In June 2008, Joint Stock Company Galt & Taggart Bank merged with the Bank and ceased to exist as a legal entity.

In June 2008, the Bank increased its authorised share capital through the issuance of 7.0 million new shares and pre-emptive rights in respect of those 7.0 million shares were cancelled.

In July 2008, the Bank acquired a 70.0% equity interest in BNB (indirectly through a Belarus entity) and retained an option to acquire the remaining 30.0% equity interest in BNB within three years. The Bank exercised the option in December 2009, and completed the acquisition of a non-controlling stake in BNB, increasing the Bank's equity interest in BNB from 70.0% to 99.96%. In January 2010, BNB increased its share capital by €10.43 million as a result of a closed share subscription approved by an extraordinary meeting of shareholders of BNB. As a result, the Bank's equity interest in BNB increased from 99.96% to 99.98%. As of 31 December 2011, BNB, which is headquartered in Minsk, served approximately 12,173 individuals and 2,090 legal entities, through its seven service centres and 16 ATMs. In July 2010, the Bank sold 19.99% of its equity interest in BNB to IFC, although the Bank also granted IFC a put option to sell its newly acquired 19.99% equity interest in BNB back to the Bank. The put option is exercisable from 15 January 2015 until 1 January 2017. See "*Management's Discussion and Analysis—Overview of Acquisitions and Disposals—Disposals*".

In December 2008, the Bank completed the reorganisation of its retail banking business in Georgia as part of its strategic cost control measures in response to the economic downturn. The principal changes in the retail banking business included the temporary closure of POS lending and mobile sales units, the merger and downsizing of the general consumer and mortgage lending units and the reduction of micro finance activities. The reorganisation led to an increased focus on the strategic businesses of the Bank, resulting in greater operational efficiency and cost-savings.

In December 2008, the Bank signed an agreement through which it has become the exclusive partner of American Express for credit card acquisition and issue in Georgia through 2017. The Bank extended its exclusive contract with American Express through 2024. As a result of this exclusive partnership with American Express, the Bank Management Board believes that the Bank has strengthened its position as a leading retail bank in Georgia by expanding its range of retail products and increasing its penetration into the mass affluent retail market.

In June 2009, in connection with IFC and EBRD convertible subordinated loan facilities, the Bank increased its authorised share capital by 3,472,506 shares and pre-emptive rights in respect of those 3,472,506 shares were cancelled. In February 2012, in connection with the Tender Offer, EBRD and IFC converted part of their respective loans to the Bank into Bank shares, and the total nominal (contractual) amount of US$49,903,083 was converted into 3,635,006 newly issued ordinary shares of the Bank.

In August 2009, in order to reduce the Bank's exposure to the asset management segment and as part of the Bank's restructuring of its non-core asset management business, Galt and Taggart Holdings Limited sold its entire equity stake (80%) in Galt and Taggart Asset Management, Georgia LLC ("**GTAM**") (subsequently rebranded into Abbey Asset Management) by way of a management buy-out for cash consideration of US$390,000. While GTAM was part of the Group, it managed, among other things, Liberty Consumer's investments (which are currently classified as non-core and which are now managed directly by Liberty Consumer).

In 2008 and 2009, the Bank enhanced its management team by hiring a number of western-educated senior executives, with substantial experience operating in the financial services industries in Western Europe and North America. As a result, the Bank Management Board increased in size from four to nine executive members. Following the enhancement of the Bank Management Board, in an attempt to improve its corporate governance, the Bank introduced a two-tier board structure, with the Bank Management Board led by the Chief Executive

Officer, and the Bank Supervisory Board, including the Chairman, comprising only non-executive directors. In March 2011, the number of Management Board members was reduced from nine to eight.

In June 2010, the Bank was the first bank in Georgia to open a direct account with Euroclear, allowing the Bank to conduct settlements of international and local securities in over 90 countries and to start offering global custodian services for the first time in the Georgian market.

In 2010, the Bank Supervisory Board approved a compensation policy for the Bank's Chief Executive Officer, Deputy Chief Executive Officers and certain of the Group's executive officers, which was effective for three compensation years ending January 2013. The compensation policy adopted in 2010 envisaged relevant employees receiving guaranteed and discretionary grants of securities, rather than cash-bonuses which have been entirely abandoned. In 2012, the Supervisory Board evaluated and re-confirmed the management compensation policy adopted in 2010 (the "**Compensation Policy**"). See "*The Management and Employees—Bank Management Board—Remuneration and Benefits*."

Having previously established a subsidiary company, Georgia Financial Investments, LLC, in Tel Aviv in 2008, the Bank set up another subsidiary company, Bank of Georgia Representative Office UK Limited, in London in August 2010.

In March 2011, State Street Bank and Trust Company, a Massachusetts trust company, and the Bank have signed a Subcustodian Agreement, pursuant to which the Bank was appointed as subcustodian of the State Street Bank and Trust Company for various customers of the trust Company, which allows access to global custody services in Georgia for the first time.

In December 2011, BGH, a public limited liability company newly incorporated in England and Wales, launched the Tender Offer to acquire the entire issued and to be issued share capital, including those shares represented by GDRs, of the Bank. Following the successful completion of the Tender Offer, BGH holds 98.35% of the share capital of the Bank. Shares in BGH ("**BGH Shares**") were admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange plc's Main Market for listed securities effective 28 February 2012. The Bank intends to acquire all of the remaining issued share capital of the Bank held by minority shareholders.

On 14 December 2011, Aldagi, the Bank's wholly-owned insurance and healthcare subsidiary, announced that it acquired the assets and liabilities of Partner, the eleventh largest insurance company in Georgia at the time of the acquisition. As of 30 September 2011, Partner had a market share of 2.1% of the non-life insurance market in Georgia (based on gross written premiums), according to the NBG. Pursuant to the transaction, Aldagi acquired total assets in the amount of GEL 5.3 million, of which insurance related assets accounted for GEL 4.6 million and liabilities amounted to GEL 5.7 million.

Between April and July 2012, Aldagi acquired 100% of Imedi L, the third largest insurance and healthcare company in Georgia. Total assets of Imedi L at the time of acquisition comprised GEL 92.5 million, with net assets of GEL 36.0 million. The total consideration for the acquisition comprised of GEL 9.6 million in cash and GEL 26.9 million of pre-existing loan to Imedi L.

As part of the transaction, the Bank agreed to make a capital injection of GEL 32.5 million into Aldagi, to ensure that Imedi L has sufficient capital and liquidity to meet its existing hospital construction obligations and is sufficiently capitalised for its expected future growth.

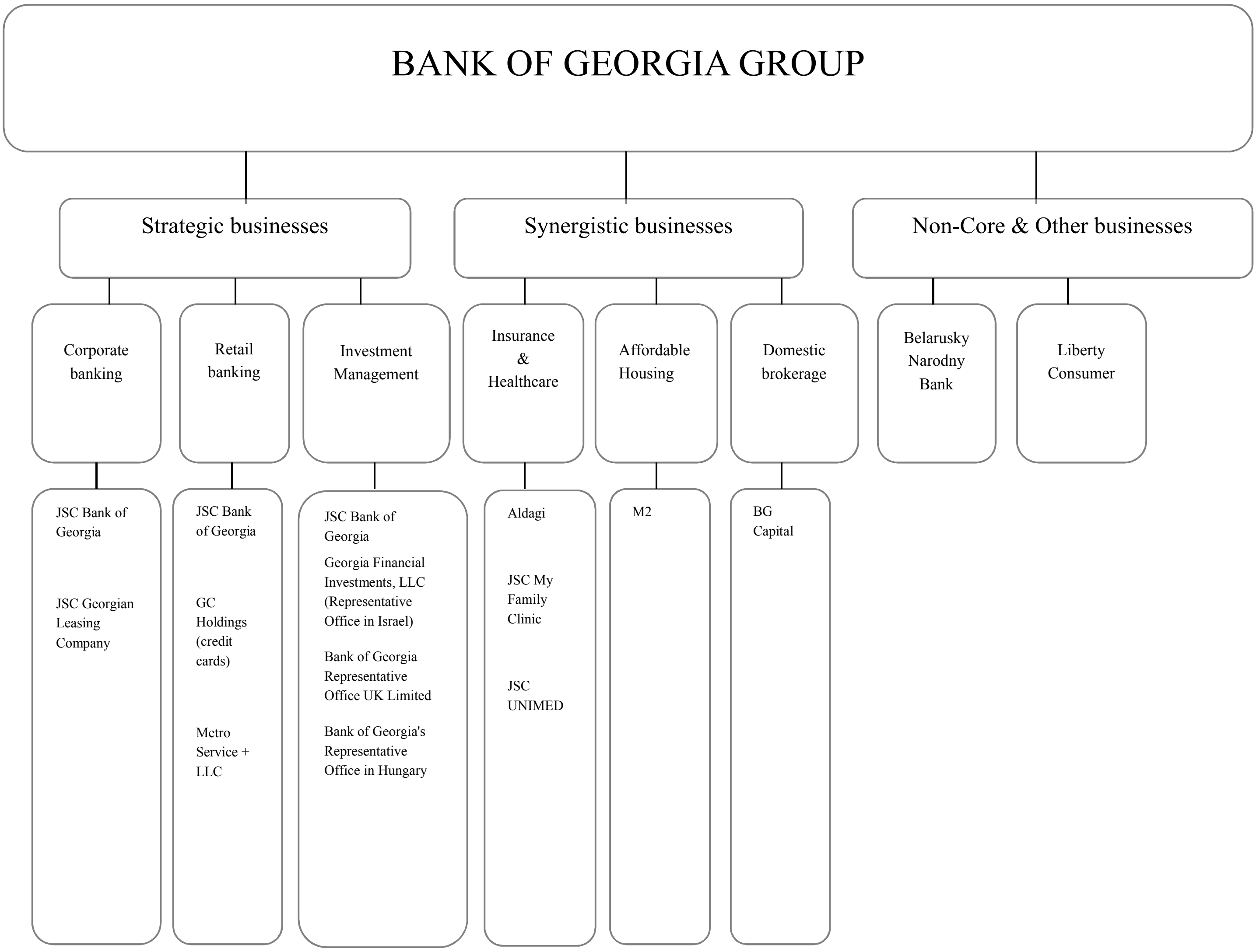
On 20 September 2012, the Bank announced the opening of an investment management representative office in Budapest, Hungary. In line with the Bank's strategy of expanding the sale of investment management deposit products internationally, Georgia Financial Investments, LLC, Bank of Georgia Representative Office UK Limited and Bank of Georgia's representative office in Hungary provide information relating to deposit products (including structured deposit products) offered by the Bank's investment management business and, in addition, Bank of Georgia Representative Office UK Limited in London facilitates communication with the Bank's existing holders.

In March 2013, East Capital, the largest shareholder of the Bank (and of BGH since March 2012) successfully placed more than 10% of BGH's shares outstanding. The sale of BGH shares by East Capital was mostly due to the closure of East Capital's Financials Fund, through which it held the Bank's and subsequently BGH's shares. As a result of the transaction, new institutional investors became shareholders of BGH, in line with the Bank's intentions to widen its shareholder base.

In August 2013, the Bank signed a sub-custodian agreement with Citibank NA Global Transaction Services, which allows access to the Georgian securities market for Citibank customers.

Corporate Structure

The following simplified diagram illustrates the Group's structure as of 30 June 2013.



Strategic Businesses

Retail Banking

Bank of Georgia is the leader in retail banking, through its market leading distribution network and market shares. As of 30 June 2013, the Bank's branch network was more than three times larger than the second largest bank's and its ATM network twice as big as its main competitor, according to publicly available information. The Bank held 29.7% market share based on deposits from individuals and 31.0%, or the largest market share based on loans to individuals. Bank of Georgia's retail banking products and services include retail lending, deposit accounts, ATM and terminal services, internet, telephone and SMS banking, utility bill payments and other money transfer services. As of 30 June 2013, the Group's credit card operations served more than 110,000 cards, and the Group is the exclusive issuer of American Express credit cards in Georgia through 2024. As of 30 June 2013, the Bank had 1,172,652 retail banking customers (of which more than 100,000 are legal entities and more than 1,070,000 are individuals), a retail loan portfolio of GEL 1,537.3 million (US$931.2 million) and retail client deposits of GEL 931.7 million (US$564.3 million). In the six months ended 30 June 2013 and in 2012, the Group's retail banking business generated revenue of GEL 126.1 million (US$76.4 million) and GEL 246.3 million (US$148.6 million), respectively, corresponding to 48.1% and 49.4%, respectively, of the Group's total revenue.

The Bank's strategy for its retail banking business is to complete the Bank's shift from a product-based to a customer/segment-based approach by introducing packages of products and services aimed at different segments of its retail banking customer base. In particular, it aims to increase its market share in all segments, restructure its existing branch network to increase efficiency and sales (including cross-selling and up-selling), offer relationship banking for mass affluent customers, develop alternative distribution channels to make its products more accessible and simplify its product offering and speed of execution.

In November 2009, the Bank launched its Solo Banking service (a premier banking service comprising a specially developed package of products and services (which was further enhanced in 2011), including its flagship American Express Gold cards) to serve mass affluent retail banking customers. Solo Banking customers are offered the services of a relationship banker working at a dedicated Solo Banking branch or in "Solo" corners in flagship branches. In May 2011, the Bank introduced the Solo "Family" package targeted at members of the family of Solo customers. As of 30 June 2013, the Bank's Solo Banking business served more than 6,000 customers.

In order to improve access to SME customers through the Bank's existing branch network and take advantage of synergies between the Bank's retail and SME businesses, SME banking was moved from corporate to retail banking in September 2010. Currently, SMEs are offered tailor-made products and services in the Bank's retail branches and a more personalised service. Solo banking services are cross-sold to owners and executives of SMEs, as well as SME employees, who are offered retail banking services.

On 14 December 2011, the Bank launched its Express Banking services aimed at mass market and emerging mass market customers, which will comprise a chain of small-size branches providing self-service transactional and remote banking facilities. The Bank's aim is to provide fast, accessible, cost-effective and competitively priced services through a network of dedicated branches at strategic locations and transition retail banking customers to using remote banking in order to increase efficiency. With the Express Banking offering, the Bank also aims to free up existing flagship branches to better position itself to acquire new customers, sell higher value-added services and products, and to improve cross-selling and up-selling of its products and services. As of 30 June 2013, the Bank had 63 Express Banking and Metro branches and more than 800 Express Pay (self-service) terminals.

In addition, the Bank is investing in automated loan processing and scoring systems and an automated collection system to reduce transactional costs, decrease service time, decrease time to market new products and increase efficiency.

Customers

The Bank divides its retail banking customers into five segments: (i) mass affluent (with monthly incomes of GEL 3,000-15,000 or liquid assets of GEL 20,000-165,000); (ii) mass market (with monthly incomes of GEL 500-3,000 or liquid assets of GEL 1,000-20,000); (iii) emerging mass market (with monthly incomes below GEL 500 or liquid assets below GEL 1,000); (iv) SMEs; and (v) Micro businesses. See "*—Micro and agro financing loans and SME loans*".

Deposit taking from retail banking customers. Retail deposits include current accounts and savings accounts (including demand deposits and time deposits) which pay interest. The Bank's current accounts consist of standard accounts (which are basic bank accounts) and universal accounts (which are multi-currency accounts that are also linked to a debit card and permit online account management services). The Bank charges a monthly fee of GEL 1.00 for each universal account and GEL 1.50 for each standard account. Additional fees are charged for SMS banking, standing orders and direct debit services. Fees are typically waived or reduced for customers in payroll programmes. In 2010, the Bank launched a new deposit taking service called Electronic Qulaba (Piggy Bank). Customers with active Electronic Qulaba accounts can automatically transfer a predetermined amount from their current account to their savings account every time they use their debit card.

As of 30 June 2013, the total amount due to retail banking customers by the Group was GEL 931.7 million (US$564.3 million), or 32.7%, of the Group's total amounts due to customers, as compared to GEL 853.2 million (US$514.9 million), GEL 797.7 million and GEL 547.0 million as of 31 December 2012, 2011 and 2010, respectively, according to the Group's management accounts.

The following table sets out information on the Group's deposits from retail banking customers as of the dates indicated (the table excludes retail banking customers of BNB for the periods indicated and BG Bank prior to February 2011):

	As of 30 June		**As of 31 December**			
	2013		**2012**		**2011**	**2010**
	(unaudited)		*(audited)*			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of US dollar)*[2]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Total amount due to retail customers[3]	564,345	931,733	514,882	853,160	797,720	546,978

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

(3) Total amounts due to retail clients includes current accounts, term deposits, demand deposits, certificates of deposit and promissory notes of the Group's retail banking clients. This item does not include deposits from individuals who are clients of the Group's investment management business. See "Investment Management". This item also includes deposits from the Group's micro-financing loan clients (non-individuals), which are classified as retail banking deposits by the Group. Amounts due to SMEs are included in retail.

Retail lending. The Group has increased the size of its retail loan portfolio to GEL 1,537.3 million (US$931.2 million) as of 30 June 2013, as compared to GEL 1,426.9 million (US$861.1 million), GEL 1,268.3 million and GEL 1,062.9 million as of 31 December 2012, 2011 and 2010, respectively. As of 30 June 2013, gross retail loans comprised 47.7% of the Group's total gross loans to customers.

The following table sets out the Group's retail banking loan portfolio (gross of allowance for impairment losses) by type of loan for the dates indicated (including retail banking loans of BNB throughout the periods indicated and BG Bank (prior to February 2011)):

	As of 30 June			As of 31 December						
	2013			2012			2011		2010	
	(unaudited)			(audited)						
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(% of total retail banking loans)*	*(thousands of US dollars)*[(2)]	*(thousands of Lari)*	*(% of total retail banking loans)*	*(thousands of Lari)*	*(% of total retail banking loans)*	*(thousands of Lari)*	*(% of total retail banking loans)*
Mortgage loans[(3)]	235,424	388,685	25.3%	234,562	388,670	27.2%	374,884	29.6%	388,628	36.6%
Micro- and agro-financing loans and SME loans[(4)]	283,578	468,187	30.5%	241,734	400,553	28.1%	318,566	25.1%	238,462	22.4%
General consumer loans	244,275	403,298	26.2%	218,239	361,622	25.3%	291,384	23.0%	188,424	17.7%
Credit cards and overdrafts[(5)]	87,323	144,171	9.4%	88,373	146,434	10.3%	143,346	11.3%	124,322	11.6%
Pawn loans	44,475	73,428	4.8%	45,531	75,445	5.3%	78,785	6.2%	66,749	6.3%
Automobile loans	11,963	19,750	1.3%	14,276	23,655	1.7%	36,713	2.9%	49,812	4.7%
POS loans	24,115	39,814	2.5%	18,423	30,527	2.1%	24, 655	1.9%	6,478	0.7%
Total retail loans, gross	931,153	1,537,333	100.0%	861,138	1,426,906	100.0%	1,268,333	100.0%	1,062,875	100.0%

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

(3) Excludes loans to its private banking clients as part of the Group's investment management business.

(4) Loans to SMEs are included in retail.

(5) Credit cards and overdrafts comprises balances on credit cards, overdrafts and certain consumer loans with terms that deviate from the standard terms used for the Group's general consumer loans and overdrafts.

The Bank's retail lending products and services primarily comprise:

Micro and agro financing loans and SME loans. The Bank offers micro-financing loans to entrepreneurs and micro businesses. Micro-financing loans are loans resulting in the Bank's overall exposure to the relevant borrower of up to US$20,000 offered to entrepreneurs and micro businesses who have a total annual turnover of less than GEL 5.0 million (US$3.0 million). Micro loans include MicroLoan+, a packaged product tailored to the needs of micro- small- and medium- sized business owners.

The Bank offers agro-financing loans to micro and SME businesses that operate in the agricultural industry. The Bank also offers SME loans to entrepreneurs and SME businesses. SME loans are loans resulting in the Bank's overall exposure to the relevant borrower of more than US$20,000 and less than US$500,000 that are offered to entrepreneurs and SMEs who have a total annual turnover of less than GEL 5.0 million (US$3.0 million). SME loans offered include MicroLoan+. SME loans were reclassified as retail loans in September 2010. In 2009 they were classified as corporate loans.

As of 30 June 2013, the Group had GEL 468.2 million (US$283.6 million) in gross micro and agro financing and SME loans outstanding, accounting for 30.5% of the Group's total gross retail loans.

Mortgage loans. The Bank offers mortgage loans with a typical tenor of 10 years for the purchase or renovation of real estate. These loans are secured by a first-ranking mortgage of the real estate purchased and/or a mortgage/pledge of alternative property or other collateral. The Bank also offers Hypo+, a packaged product, which is the first and only flexible offset mortgage available to home buyers in Georgia. In May 2013, the NBG launched its repo programme, pursuant to which the NBG provides financing to Georgian banks through GEL denominated loans linked to the NBG's refinancing rate. The NBG repo programme, which allows the Bank to issue GEL denominated mortgage loans at rates lower than foreign currency denominated mortgage loan rates, is expected to support the growth of the Bank's overall and particularly GEL denominated mortgage loan book. In addition, Management believes that the Group will continue to successfully cross-sell its mortgage loans to buyers of properties of residential housing developed by its real estate subsidiary, m2 Real Estate. See "—*Synergistic Businesses—Affordable Housing*".

As of 30 June 2013, the Group had GEL 388.7 million (US$235.4 million) in gross retail banking mortgage loans outstanding, or 25.3% of total gross retail loans. The Bank additionally provides mortgages to investment management customers as part of its investment management business.

General consumer loans. General consumer loans are offered as fixed-term, fixed-instalment loans to be used for general purposes. The maximum principal amount of a consumer loan secured by real estate is capped at GEL 50,000 (US$30,285) with a maximum maturity of five years. Since 2010, the Bank has offered loans exclusively to members of its payroll services, who can withdraw consumer loans from ATMs following approval notification being received via an SMS. This offering of SMS loans enables the Bank to free up front office time to service payroll customers in branches.

As of 30 June 2013, the Group had GEL 403.3 million (US$244.3 million) in gross general consumer loans outstanding, or 26.2% of total gross retail loans. The Bank additionally provides general consumer loans to its investment management customers as part of its investment management business.

Pawn loans. Pawn loans are loans made to retail banking customers that are secured by precious metals and gems deposited by the customer. Pawn loans are offered as fixed-term loans to be used for general purposes and may be given for a period of up to three months with a right of extension at the end of the period.

As of 30 June 2013, the Group had GEL 73.4 million (US$44.5 million) in gross pawn loans outstanding, accounting for 4.8% of the Group's total gross retail loans.

POS loans. POS loans are express loans offered for consumer goods sold at merchant stores. Such loans are secured by a charge over the goods purchased with the loan. As of 30 June 2013, the Bank had a total of 238 POS sales desks.

As of 30 June 2013, the Group had GEL 39.8 million (US$24.1 million) in gross POS loans outstanding, accounting for 2.5% of the Group's total gross retail loans.

Automobile loans. The Bank has agreements with various automobile dealers in connection with providing loans for the purchase of fully-insured vehicles. As of 30 June 2013, the Bank had 41 agreements in place with automobile dealers and the Bank maintains a physical presence at nine dealers. These loans are secured by a charge over the purchased vehicle. The Bank also offers Auto+, an automotive loan package available at most major automobile dealers, providing a convenient long-term instalment payment option to automobile buyers.

Express loans. The Bank offers Express loans, which are GEL 200 consumer loans. Such loans are offered through the Bank's Express Banking branches, through instant scoring systems, and the Bank does not maintain any minimum income or security requirements to receive such loans. Express loan borrowers may withdraw the principal amount of the loan at any of the Bank's ATM machines and are required to pay a bi-monthly fee of GEL 10 until the loan is repaid in full.

As of 30 June 2013, the Group had GEL 16.1 million (US$9.8 million) in gross Express loans outstanding, accounting for 1.0% of the Group's total gross retail loans.

SMS loans: The Bank also offers loans to its customers through SMS messages. These pre-approved loans may be withdrawn from any ATM of the Bank.

As of 30 June 2013, the Group had GEL 40.2 million (US$24.4 million) in gross SMS loans outstanding, accounting for 2.6% of the Group's total gross retail loans. As of 30 June 2013, the Group had GEL 19.8 million (US$12.0 million) in gross automobile loans outstanding, accounting for 1.3% of the Group's total gross retail loans. The Bank additionally provides automobile loans to investment management customers as part of its investment management business.

Banking cards. The Bank issues debit cards, often with overdrafts, to its retail banking customers in conjunction with universal current accounts, as well as credit cards. The Bank's banking card business has grown to over 900,000 cards outstanding as of 30 June 2013, from approximately 825,500, 663,000 and 603,000 in issue as of 31 December 2012, 2011 and 2010, respectively.

Debit cards. In line with the Bank's segment-based retail strategy, the Bank offers a range of international debit cards to different retail banking customer segments: Maestro, VISA Electron, VISA Classic and MasterCard Standard (for all retail banking customers), VISA Gold and MasterCard Gold (for mass affluent retail banking customers) and OneCard VISA Infinite (for investment management customers). In 2011, the Bank launched the American Express Rewards card (for the mass affluent segment) and the LoveCard, which allows the holder to choose their own personalised card design for all retail banking customers. The Bank also offers overdraft facilities and a variety of additional services to banking card holders, including direct debit, internet banking, telephone banking, SMS banking, utility bills payment and ATM services.

The Bank, together with its affiliate, Metro Service+, pursuant to exclusive agreements with the Tbilisi municipal companies, operates the metro and bus transport payment system, including ticket machines. As of 30 June 2013, there were approximately 1.3 million active Bank-branded transit contactless cards (Metro cards) issued. The exclusive agreements with the Tbilisi municipal companies are due to expire in 2016, with respect to the metro transport system, and 2018, with respect to the bus transport system. The Bank Management Board believes that the transport payment system is strategically important for the Bank in order for it to further develop its contactless payments system in Tbilisi and further expand its mass retail banking customer base. In July 2011, Metro Service+ entered into an agreement with Tbilisi Mini Bus Company so transit cards could be used to pay mini bus fares. In December 2011, the parties entered into a new agreement which granted Metro Service+ a 10 year exclusivity to operate payments and cash collection systems.

Express (contactless) cards. In line with the Bank's Express banking strategy to shift customers from traditional to transactional banking, new client acquisitions and cost efficient growth, the Bank started to issue Georgia's first contactless cards, Express cards on 5 September 2012. Express cards are in an exclusive travel contactless card for metro, minibuses and buses linked to customers' current accounts. Express cards include loyalty programmes, providing a customer a free metro or bus ride after ten rides using the Express card. The Bank's customers can also top up their Express cards at any of the Bank's Express Pay (self-service) terminals. Since the launch in 2012, by 30 June 2013, more than 300,000 Express cards have been issued, replacing pre-paid Metro cards in circulation since July 2009. The Management expects Express cards to gradually replace Metro cards, further contributing to the growth of current accounts and current account balances.

Credit cards and overdrafts. The Bank's credit card offering includes Orange card (the first Georgian credit card). The Bank is the exclusive partner of American Express for both acquiring and issuing American Express cards in Georgia. In November 2009, the Bank launched the American Express Gold Card and the American Express Green Card issued in Georgia and, in 2010, the Bank introduced the American Express Blue Card, which offers customers financial flexibility and the ability to earn cash back on their spending. In September 2010, the Bank became the exclusive partner of Diners Club International acquiring business in Georgia and an ATM processor for Diners Club International and Discover card transactions. All of the Group's credit card holders are contractually obliged to make minimum payments in respect of at least 10% of the outstanding balance of their monthly credit card statements, subject to a minimum grace period of up to 55 days.

The Bank Management Board believes that the Bank's growing credit card offering will substitute POS lending and other general consumer lending products over time.

The Bank was a co-founder of Georgian Card, the first banking card processing centre in Georgia, which processes and personalises Visa, MasterCard and American Express cards and provides acquiring services to Diners Club International and Discover card. As of 30 June 2013, Georgian Card is 56.2% owned by the Bank (the remaining shares are held by Bank Republic (42.03%) and other minority shareholders (1.77%)). Georgian Card currently provides the Bank's plastic card transaction processing and in addition card transaction processing of four other banks operating in Georgia. Between 2007 and 2009, the Bank invested significantly in the upgrading of Georgian Card's platform, which now utilises Transmaster card processing software developed by TietoEnator.

The Bank also offers its payroll customers short-term unsecured overdraft facilities with repayment required on the maturity date. As of 30 June 2013, the Group had gross credit cards and overdrafts of GEL 144.2 million (US$87.3 million) outstanding, accounting for 9.4% of the Group's total gross retail loans.

Internet, telephone, SMS and e-mail banking. The Bank offers access to its retail banking products and services through the internet, allowing customers to make inter-bank payments to companies or individuals, monitor account balances, transfer funds (within the Bank and to third party accounts), order debit and credit cards and open accounts and savings products. The Bank also offers an SMS-based mobile banking service, allowing automatic delivery of transactional information to customers' mobile phones and selected SMS-based customer queries. Customers can also use the mobile banking service to top up mobile phone air time and receive notifications of consumer loan approvals. E-mails can also be used for sending instructions to the Bank and receiving information on transactions. In addition, in 2012, the Bank became the first bank in Georgia to launch applications for mobile banking (on iPhone and Android devices).

Call centre. The Bank has a 24-hour modern customer service call centre to provide its retail banking customers with assistance by telephone and by e-mail. The call centre facilitates customers entering into banking transactions over the telephone, including, among other things, paying bills, transferring money and making balance enquiries. As of 30 June 2013, the call centre had 53 employees.

Terminal banking (Express Pay). Since September 2010, the Bank has installed and operates 870 Express Pay (self-service) terminals in Georgia to provide its retail banking customers the opportunity to make utility bill payments, loan repayments, Express card top-ups as well as other payments, open small deposit accounts and receive low value cash loans instantly at a wider variety of locations. In the first six months of 2013 and in 2012, the terminals handled 16.1 million and 8.6 million, respectively, transactions with a total value of GEL 185.0 million and GEL 155.1 million, respectively. The Bank Management Board believes that Express Pay (self-service) terminals enable the Bank to run its branch operations more efficiently as they free-up front office employees to assist other customers.

ATM network. As of 30 June 2013, the Bank had the largest ATM network in Georgia, comprising 481 ATMs, giving its customers access to an easy and convenient cash withdrawal service. These ATMs also offer the Bank's retail banking customers the opportunity to make utility bill payments and loan repayments, receive remittances and make person-to-person transfers. In addition, customers enrolled in the Bank's payroll programmes can draw down general consumer loans at the Bank's ATMs following receipt of a notification of approval via SMS. In the first six months of 2013 and in 2012, the Bank's ATMs handled 6.0 million and 11.0 million, respectively, transactions with a total value of GEL 1,095.4 million and GEL 2,036.8 million, respectively.

Money remittance systems. The Bank currently operates ten international remittance systems, which allow retail banking customers to transfer money in and out of Georgia. In the first six months of 2013 and during 2012 and 2011, a total of GEL 1,221.4 million (US738.4 million), GEL 2,381.7 million (US$1,442.4 million) and GEL 2,307.2 million, respectively, was remitted in and out of Georgia, of which GEL 501.5 million (US$303.7 million), GEL 948.1 million (US$572.2 million) and GEL 816.8 million was remitted through the Bank, representing a 41.1%, 39.8% and a 35.4% market share, respectively.

In 2009, the Bank introduced a new service which allows its customers to receive remittances by contacting an operator in the Bank's call centre and crediting the remittance amounts to the customer's account. Following that, in March 2011, the Bank has also enabled its card members to receive remittances through ATMs. Management believes that both of these services enable the Bank to run its branches more efficiently by freeing up the service time of front office employees.

Corporate Banking

Bank of Georgia is a leader in corporate banking, with a market share of 34.4% based on deposits from legal entities, and a market share of 36.5% based on loans to legal entities, both as of 30 June 2013. The Bank's corporate banking customers include large corporates and government entities. The Bank provides corporate lending and finance leasing (principally in US dollars) in addition to offering current and deposit accounts, account administration and cash management services, payroll services, factoring, trade financing and foreign exchange services. As of 30 June 2013, the Bank had 7,718 corporate banking customers in Georgia and the Group's consolidated gross corporate loan portfolio comprised GEL 1,670.6 million (US$1,011.9 million), while the Group's corporate amounts due to customers comprised GEL 1,296.8 million (US$785.5 million). In the first six months of 2013 and in the year ended 31 December 2012, the Group's corporate banking business generated revenue of GEL 80.6 million (US$48.8 million) and GEL 154.8 million (US$93.4 million), respectively, corresponding to 30.7% and 31.0%, respectively, of the Group's total revenue for the relevant periods.

The Bank operates an integrated customer coverage model for its corporate banking customers. Each corporate banking customer is assigned a dedicated relationship banker who facilitates and coordinates the customer's interaction with the Bank's product specialists, including in the areas of lending, investment banking, trade finance to corporate banking customers, leasing, insurance and retail banking (with respect to payroll services). The Bank offers combined packages of products and services to its corporate banking customers, enabling them to reduce their banking costs and increase efficiency while generating more sales for the Bank.

The key elements of the Bank's corporate banking strategy for the short-to medium-term are: to increase its focus on cross-selling, including insurance and other non-banking products and services to increase its integrated customer coverage; decrease its portfolio concentration by continuing to focus on mid-sized corporate banking customers; expand its project finance business; further develop sector expertise by introducing regular in-depth research across different industries; introduce investment banking and commodity finance; and finance larger borrowings through syndications and club deals. Currently the Bank is focusing on the following sectors, which Management believes offer growth potential as they are underpenetrated: agriculture, hospitality, healthcare and education. The Bank improved its product offering in 2010 through the introduction of overdrafts on corporate cards, turnover based guarantees, the Energo-credit programme financed by the EBRD, leveraged buyouts and project finance.

Corporate banking products and service

Corporate lending. The Bank's corporate lending activities include the provision of working capital loans, fixed asset financing, revolving credit lines and overdrafts, as well as project finance. Corporate banking loans are defined as loans over GEL 825,500 (US$500,000) or the equivalent or loans to borrowers whose annual turnover exceeds GEL 5.0 million (US$3.0 million). Until September 2010, when SME loans were reclassified as retail loans, corporate loans also included SME loans. The Bank offers a wide range of corporate loans in Lari and foreign currencies, principally US dollars, including short-term loans for working capital purposes and overdrafts in addition to medium-term loans and long-term loans and project finance. 20% of the Bank's corporate loans to customers are working capital revolving credit lines, with a majority of such loans having maturities of one year or less. Subject to general economic conditions, as demand for longer-term financing increases, the Bank intends to increase its maturity limits in respect of existing customers and other high credit quality borrowers commensurate with the availability of longer-term funding. The Bank also provides credit lines to developers to finish construction projects where the sale of the property under development is guaranteed by the Tbilisi municipality.

The following table sets out the Group's corporate loan portfolio (gross of allowance for impairment losses) by economic sector of borrower as of the dates indicated (including corporate banking loans of BNB for the periods indicated and BG Bank prior to February 2011):

	As of 30 June			As of 31 December						
	2013			2012			2011		2010	
	(unaudited)			(audited)						
	(thousands of US dollars)[(1)]	*(thousands of Lari)*	*(% of total corporate banking loans)*	*(thousands of US dollars)*[(2)]	*(thousands of Lari)*	*(% of total corporate banking loans)*	*(thousands of Lari)*	*(% of total corporate banking loans)*	*(thousands of Lari)*	*(% of total corporate banking loans)*
Retail and wholesale trade	240,087	396,384	23.7%	228,051	377,881	22.5%	310,957	22.8%	302,175	21.2%
Construction and real estate	139,150	229,737	13.8%	138,327	229,208	13.7%	234,717	17.2%	216,690	15.2%
Industry and state[(3)]	239,477	395,377	23.7%	278,416	461,336	27.5%	180,013	13.2%	66,975	4.7%
Consumer goods	87,024	143,677	8.6%	95,107	157,592	9.4%	185,728	13.6%	140,319	9.9%
Pharmaceuticals and healthcare	83,516	137,885	8.3%	100,322	166,233	9.9%	185,823	13.6%	16,719	1.2%
Energy	103,856	171,466	10.3%	76,748	127,171	7.6%	157,303	11.6%	319,909	22.5%
Other[(4)]	118,775	196,098	11.6%	95,476	158,203	9.4%	108,517	8.0%	361,763	25.3%
Total corporate banking loans gross(5)	1,011,885	1,670,624	100.0%	1,012,447	1,677,624	100.0%	1,363,058	100.0%	1,424,550	100.0%

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

(3) "Industry and state" includes metals, mining, machinery manufacturing and other heavy industry, as well as government agencies and state owned enterprises.

(4) "Other" comprises loans to borrowers with diversified business activities that cannot be readily categorised into a particular sector.

(5) Loans to SMEs are included in retail.

The Group's gross corporate loan portfolio declined to GEL 1,670.6 million (US$1,011.9 million) as of 30 June 2013, or 51.8% of the Group's total gross loans to customers, as compared to GEL 1,677.6 million (US$1,012.4 million), or 53.4% of total gross loans to customers as of 31 December 2012, GEL 1,363.1 million, or 51.1%, of total gross loans to customers as of 31 December 2011 and GEL 1,424.6 million, or 56.4%, of total gross loans to customers as of 31 December 2010, respectively.

For the six months ended 30 June 2013 and 2012, the Group had net interest income from corporate banking customers of GEL 50.5 million (US$30.6 million) and GEL 92.3 million (US$55.7 million), respectively, as compared to GEL 77.9 million for the year ended 31 December 2011. The Group had net interest income from corporate banking customers of GEL 76.0 million for the year ended 31 December 2010.

The Group's ten largest corporate banking borrowers accounted for 16% of the Group's total consolidated loans to customers gross of allowance for impairment losses as of 30 June 2013, as compared to 17%, 15% and 15%, respectively, of its total loans to customers (gross of allowance for impairment losses) as of 31 December 2012, 2011 and 2010.

Deposit taking. The Bank offers a range of corporate deposit products in Lari and in foreign currencies, including multicurrency current accounts, term deposits and demand deposit accounts. As of 30 June 2013, the Group had a total of GEL 1,296.8 million (US$785.5 million) in current accounts, term deposits, promissory notes, certificates of deposits and demand deposits from corporate banking customers, representing 45.5% of the Group's total amounts due to customers as of that date, as compared to GEL 1,234.7 million (US$745.1 million), GEL 1,483.3 million and GEL 1,217.7 million at 31 December 2011 and 2010, respectively.

The Bank's ten largest corporate depositors accounted for 17% of the Group's total consolidated amounts due to customers as of 30 June 2013, as compared to 17%, 21% and 18% of its amounts due to customers as of 31 December 2012, 2011 and 2010, respectively.

The following table sets out the Group's total amounts due to corporate banking customers as of the dates indicated (including corporate banking customers of BNB for the periods indicated and of BG Bank prior to February 2011):

	As of 30 June		As of 31 December			
	2013		2012		2011	2010
	(unaudited)		*(audited)*			
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of US dollar*[2]*)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Total amounts due to corporate banking customers[3]	785,483	1,296,832	745,131	1,234,682	1,483,324	1,217,692

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

(3) Total amounts due to corporate banking clients include current accounts, term deposits, demand deposits and promissory notes to the Group's corporate banking clients. Amounts due to SMEs are included in retail.

Payroll services. Payroll services enable employers to reduce the cost of paying salaries to their employees by transferring salaries directly to their employees' bank accounts with the Bank. The employees are able to withdraw multiple currencies using plastic payroll cards, all of which are part of either the MasterCard or VISA International system, at any branch of the Bank and any ATM domestically or internationally that accepts Visa or MasterCard cards. The Bank currently offers payroll services to over 3,600 companies. In addition to the fees which the Bank charges its corporate banking customers for providing payroll services, the payroll services and corporate cards provided by the Bank to its corporate banking customers generate income for the Bank's retail banking segment. The Bank's payroll services enable it to cross-sell retail banking services and products to its customers' employees. As of 30 June 2013, the Bank's retail banking customer base included more than 227,000 individuals who are employees of companies that receive payroll services as part of the Bank's corporate banking business. See "*—Retail Banking—Retail Banking Products and Services*".

Trade finance. Management believes the Bank is one of the leading trade finance banks in Georgia, and in 2012, 2011 and 2010 the Bank was awarded by EBRD the "Most Active Issuing Bank in Georgia". IFC named the Bank the "Best GTFP Issuing Bank in Caucasus and Central Asia" in 2012 and "Best Global Trade Finance Provider Issuing Bank in Europe and Central Asia for SME Financing" in 2011. The Bank has received awards for being the "Best Trade Finance Provider in Georgia" in 2013, 2012, 2011 and 2010 from Global Finance. Commerzbank nominated the Bank in 2010 as the "Successful Business Partner in Trade Finance Operations". It is active in both domestic and international operations and offers trade finance services worldwide through its network of correspondent banks and international commercial banks, as well as the Global Trade Finance Programme with IFC and the Trade Facilitation Programme with EBRD and ADB. It aims to act as adviser to its customers throughout the lifecycle of a trade finance operation.

The Bank's trade finance products currently include pre-export financing, import financing, issuing, advising, confirming and discounting letters of credits, stand-by letters of credit, and guarantees, documentary collections and factoring. It is focusing on growing its market share and developing innovative products.

In September 2008, the Bank became the first Georgian bank to join IFC's Trade Finance Programme, which provided it with a trade finance line of US$40.0 million for issuing guarantees against its customers' trade transactions.

In March 2011, the Bank joined ADB's Trade Finance Programme, which provided the Bank with a trade finance line of US$39.0 million for issuing guarantees against its customers' trade transactions.

As of 30 June 2013, the Bank had long-standing relationships with export credit agencies, such as US Export-Import Bank, SACE, US Department of Agriculture, Sinosur (China), Euler Hermes, ECGD and EGAP (Czech Export Bank).

As of 30 June 2013, the Bank had trade finance limits from non-Georgian banks amounting to, in aggregate, GEL 468.4 million (US$283.7 million) from Commerzbank, UBS, Citibank, BNP Paribas, JP Morgan Chase, ING Bank, Bank Austria, Cargill Financial Services, Ziraat Bank, Atlantic Forfaiting, EBRD, IFC and ADB.

Leasing services. The Bank provides finance leasing services through its wholly-owned leasing subsidiary, GLC. A finance lease comprises a commercial arrangement whereby the Bank purchases (as lessor) an asset that the customer (the lessee) requires and leases that asset to the customer for a fixed long-term period in return for rental payments that cover the cost of the asset and provide interest on the principal amount paid for the asset. The risks relating to ownership of the leased asset remain with the customer during the term of the lease. The acquisition of GLC in 2004 enabled the Bank to offer leasing services to its corporate banking customers and has provided cross-selling opportunities with other corporate banking products and services and insurance products and services. As of 31 December 2012, the total value of GLC's leasing portfolio was GEL 66.9 million.

Remote banking. Corporate banking customers can access a range of remote banking products including internet, telephone and SMS banking, utility bill payments, online payments, direct debits, payroll services and standing orders through a dedicated remote banking platform.

Treasury operations. The Bank offers a range of treasury operations, including foreign currency conversion, trading in securities and other products including hedging.

Business card services. The Bank offers corporate Visa and MasterCard banking cards and American Express Corporate cards to corporate banking customers.

Investment Management

The Bank's investment management business attracts deposits from wealthy local and international customers (including through its representative offices in London, Tel Aviv and Budapest) as a source of funds for the Bank's corporate and retail lending. The Bank's private bankers are trained to identify the specific needs of their customers and to offer a variety of financial and insurance products and a high level of personalised service. In a move to further diversify the Group's revenue streams through growing its fee generating businesses, the Bank recently combined its advisory brokerage, research and asset and wealth management businesses under the Investment Management umbrella. In the near future, the Group expects to begin marketing investment products, starting with a regional money market fund that will invest in local and foreign currency denominated in short-and medium-term debt instruments issued in Georgia, and followed by investments in debt instruments of neighbouring countries. The Bank aims to establish the leading investment management franchise in Georgia and will consider opening more representative offices internationally in the future. As of 30 June 2013, the Group's current accounts (including demand deposits) and term deposits from investment management customers were GEL 624.2 million (US$378.1 million), or 21.9% of the Group's total amounts due to customers, as compared to GEL 605.2 million (US$365.2 million), GEL 454.2 million and GEL 261.6 million as of 31 December 2012, 2011 and 2010, respectively.

The following table sets out the total amounts due to Investment Management customers as of the dates specified:

	As of 30 June		**As of 31 December**			
	2013		**2012**		**2011**	**2010**
	(unaudited)		*(audited)*			
	(thousands of US dollars)(1)	*(thousands of Lari)*	*(thousands of US dollar*(2)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Total amounts due to Investment Management customers(3)	378,078	624,207	365,228	605,183	454,178	261,638
Of which certificates of deposit	62,601	103,354	0	0	0	0

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

(3) Total amounts due to Investment Management clients include current accounts, time deposits and demand deposits and certificates of deposit to the Group's Investment Management clients.

The Bank's core investment management product is the multi-currency OneCard Infinite (Visa platform) debit card, which is designed to satisfy all of the current and savings account needs of the customer with a single packaged product. The OneCard Infinite enables cardholders to link the same card to up to four accounts in different currencies (Lari, US dollars, Euros and Pounds Sterling), with comprehensive online and SMS banking functionality, an attractive interest rate on daily balances in all currencies, credit limits similar to those of a regular current account and expeditious credit line/overdraft approval.

Currently, investment management products include term and demand deposits and certificates of deposit (the latter launched in January 2013) with maturities of up to 60 months and demand deposits in Lari, US dollars, Euros, Pounds Sterling and other currencies. Additionally, customers receive health, property and life insurance through Aldagi and brokerage, custody and portfolio management services through BG Capital. The Bank also offers personalised financial planning and lifestyle management services (including concierge services, information services, utility payment services and travel arrangement services) to its investment management customers.

The following table sets out the Group's investment management loans (gross of allowance for impairment losses) by type of loan offered as of the dates specified:

	As of 30 June			**As of 31 December**							
	2013			**2012**			**2011**			**2010**	
	(unaudited)			*(audited)*							
	(thousands of US dollars)(1)	*(thousands of Lari)*	*(% of total Investment Management loans)*	*(thousands of US dollars)*(2)	*(thousands of Lari)*	*(% of total Investment Management loans)*	*(thousands of Lari)*	*(% of total Investment Management loans)*	*(thousands of Lari)*	*(% of total Investment Management loans)*	
Mortgage loans	4,288	7,079	41.8%	5,699	9,444	24.1%	16,113	43.8%	21,158	53.2%	
General consumer loans	5,211	8,603	50.7%	16,875	27,962	71.4%	18,365	50.0%	16,448	41.3%	
Automobile loans	225	372	2.2%	247	409	1.0%	943	2.6%	1,027	2.6%	
Other (including overdrafts)(3)	545	899	5.3%	820	1,359	3.5%	1,327	3.6%	1,175	2.9%	
Total Investment Management loans	10,269	16,953	100.0%	23,641	39,174	100.0%	36,748	100.0%	39,808	100.0%	

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

(3) "Other" comprises overdrafts, other plastic banking cards and private banking loans with different terms from the standard terms used by the Group for Investment Management loans.

The Bank offers its investment management customers Visa, MasterCard and American Express (Blue, Green, Gold, Platinum and Centurion Cards). Although in general American Express cards are also offered to retail customers and individuals, American Express Centurion Cards are offered exclusively to investment management customers. The Bank has distribution agreements on an exclusive basis with American Express for American Express Cards.

Synergistic Businesses

Insurance and Healthcare

Insurance

Bank of Georgia provides insurance-related and healthcare products and services through its wholly-owned subsidiary, Aldagi, which was formed out of a merger of BCI and Aldagi. Aldagi, itself, was formed in 1990 as the first private insurance company in Georgia. The Bank Management Board views insurance and healthcare business as growth opportunities for the Group, and may consider a public offering of Aldagi's business in the near future. According to NBG figures, from 2007 to 2012, the total Georgian insurance market (measured by gross written premiums) increased at a CAGR of 34.1%. The general growth trend has been supplemented by the introduction, in 2007, of Georgian government subsidies for private health insurance for socially vulnerable citizens, teachers and among others and in, September 2012, a wider-scale state insurance programme, the Healthcare Programme. On 1 March 2013 the Ministry of Health, Labour and Social Affairs ("**MOH**") extended the Healthcare Programme to all Georgian citizens not already covered by it. The extended Healthcare Programme includes ambulance services, and primary healthcare programmes in villages. It is administered by the Social Service Agency under MOH, and covers basic outpatient services, planned and emergency hospitalizations.

Aldagi is a leader in the Georgian life and non-life insurance markets, based on a market share of 31.3% of the life and 20.8% of the non-life insurance markets as of 31 December 2012 (based on gross premium revenue), as compared to a market share of 21.2% and 20.0%, respectively, as of 31 December 2011 and a market share of 27.8% and 17.3%, respectively, as of 31 December 2010 (in each case according to statistical information published by the NBG).

Aldagi provides a wide range of corporate and consumer insurance and related products in the following areas: property and casualty; liability, including general third party liability, motor third party liability, carriers' liability, professional indemnity, bankers' blanket bonds, product liability and employer liability; personal risks, including health insurance, personal accident, travel and term life insurance, performance bonds and guarantees and agriculture. Aldagi cooperates with a number of internationally renowned reinsurers (Allianz, Scor, Hannover Re., ACE, Chartis and Polish Re) and adheres to strict reinsurance policies which are designed to ensure that Aldagi has sufficient reinsurance to support its business and any new insurance products or product lines that it offers.

The Group's insurance business represents an opportunity for cross-selling to its customer base, leveraging the Bank's 197 branches and 2,044 sales staff, as well as more than one million retail and more than 7,700 corporate client base. In addition to its network of nine Aldagi branches and the Bank's distribution network, Aldagi insurance distribution system consists of independent agents and brokers and freelance contractors for both corporate and retail insurance products. Aldagi operates a 24-hour telephone helpline for its health insurance customers.

Since May 2013, insurers have been regulated by the Agency of State Supervision of Insurance. Insurers must maintain regulatory capital of at least GEL 1.0 million for non-life insurance licences and GEL 1.5 million for life insurance licences, and have to comply with insurance reserve requirements.

On 14 December 2011, Aldagi announced that it had acquired the assets and liabilities of Partner, the eleventh largest insurance company in Georgia at the time of acquisition. As of 30 September 2011, Partner had a market share of 1.9% of the non-life insurance markets in Georgia (based on gross premium revenue). Pursuant to the transaction, Aldagi acquired total assets in the amount of GEL 5.3 million, of which insurance related assets account for GEL 4.6 million and liabilities in the amount of GEL 5.7 million.

On 28 December 2011, the Bank announced that My Family Clinic, a healthcare subsidiary of Aldagi, had merged with the healthcare business of the Block Georgia group of companies. As a result of this non-cash transaction, as of the date of this Prospectus, Aldagi retains a controlling equity interest of 51% in My Family Clinic, while Block Invest LLC, a member of the Block Georgia group of companies, holds the remaining 49%.

Between April and July 2012, Aldagi acquired 100% of Imedi L, the third largest insurance and healthcare company in Georgia. Total assets of Imedi L at the time of acquisition comprised GEL 92.5 million, with net assets of GEL 36.0 million. The total consideration for the acquisitions comprised of GEL 9.6 million in, cash and GEL 26.9 million of pre-existing loan to Imedi L.

As part of the transaction, the Bank made a capital injection of GEL 32.5 million into Aldagi, to ensure that Imedi L has sufficient capital and liquidity to meet its existing hospital construction obligations and is sufficiently capitalised for its expected future growth.

Healthcare

As with insurance, the Group's healthcare business seeks to address a market opportunity within the growing Georgian economy. Historically, the healthcare market in Georgia has been fragmented with a limited number of managed healthcare chains operating in the country and many of the hospitals and clinics are older, Soviet-era facilities. Healthcare spending has been increasing over the last ten years and, in 2010, represented GEL 2.2 billion (US$1.3 billion), according to the National Health Accounts as published by the Ministry of Labour, Health and Social Affairs of Georgia.

With the view of diversifying its revenue sources and capitalizing on growth opportunities presented by the vertical integration of the rapidly growing underpenetrated health insurance market and the healthcare business, in 2006 Aldagi entered into highly fragmented, underdeveloped healthcare business. From 2006 through 2012, Aldagi substantially enlarged its business model through the successful vertical integration of its rapidly growing health insurance business with the healthcare operations. The growth was significantly boosted by several acquisitions made by Aldagi, most notably in the first half of 2012, through the addition of Imedi L, Georgia's third largest insurance and healthcare company at the time of the transaction.

As of 30 June 2013, Aldagi's healthcare business consisted of My Family Clinic (MFC) and Unimed, Georgia's leading healthcare providers, in which Aldagi holds 51% and 100% stakes, respectively. MFC and Unimed operate a chain of healthcare centres in Georgia, predominantly located in Western Georgia.

Aldagi is the largest healthcare provider in Georgia with seven referral (multi profile) clinics (70-220 beds) and 20 community clinics (15-70 beds), a total of 1,221 beds; 5 outpatient clinics, 78 ambulance units, seven mobile Intensive Care Units (ICU), 556 primary health care units across villages, reaching 1.9 million population of Georgia as of 30 June 2013. The majority of Aldagi's clinics (22) are concentrated in Western Georgia, where there is limited competition. As of 30 June 2013, the next largest competitor operated 5 clinics and 545 beds countrywide.

Aldagi Healthcare's clinics and hospitals are located in the capital Tbilisi and in five geographical clusters outside the capital city (Kakheti, Samtskhe-Javakheti, Imereti, Samegrelo and Adjara). There are three types of clinics, ambulatory clinics, community clinics and referral hospitals, each defined by the complexity of services they provide.

Community clinics caters ER, Obstetric care, level 1-2 surgical services, outpatient care, specialist services, basic diagnostic (LAB, US, X-Ray). For other services patients are referred to regional referral clinics. CC is the single point of healthcare services in its area. CC employees on average 20 doctors and 20 inpatient nurses. CC provides on average nine surgeries and 15 labours on a monthly basis.

Referral clinics are multi profile clinics providing outpatient and inpatient services in the following areas: anaesthesiology, angio surgery, breast surgery, cardiology, cardiology interventional, cardio surgery, dermatology, dialysis, electro-diagnostics (EEG, ECG, electromyography), endocrinology, ENT, face & jaw surgery (including. stomatology), general surgery, gynaecology, head and neck surgery, haematology, imaging, intensive care, laboratory diagnostics, neonatal care, neonatology, nephrology, neurology, neurosurgery, obstetrics, onco-haematology, oncology, ophthalmology, ophthalmology surgery, orthopaedic surgery, paediatric care, plastic surgery, proctology, pulmonology, radiology-diagnostics, therapeutic care, thoracoabdominal surgery, toxicology, traumatology and urology.

Operating a chain of healthcare centres within a region allows the Group to make cross-referral of patients between the Group's inpatient and outpatient clinics. In addition, Aldagi is able to hedge its claims expenditure on health insurance by converting claims expenditure into revenue for its health care business. For the six months ended 30 June 2013 and in the years ended 31 December 2012, 2011 and 2010, claims expenditure under Aldagi's health insurance programme amounted to GEL 42.8 million (US$25.9 million), GEL 52.6 million (US$31.8 million), GEL 26.5 million and GEL 25.7 million, respectively, of which only 41.0%, 28.7%, 23.4% and 22.1%, respectively, was captured as revenue in the Group's existing six health care centres.

Pursuant to the Healthcare Programme introduced in September 2007 by the Georgian government covering insurance of socially vulnerable citizens, retired citizens, students and children under six, Aldagi undertook to construct healthcare facilities. Aldagi completed the planned roll-out of healthcare facilities in the first half of 2013, concluding its obligations to open new healthcare facilities under the Healthcare Programme.

On 24 October 2011, Aldagi obtained an Export Credit Facility for the project in the amount of US$11.9 million from ING Bank, which has been guaranteed by the Bank. The interest rate payable under the Export Credit Facility is 1.90% plus 6 month US dollar LIBOR plus any Mandatory Cost (being the percentage rate per annum calculated by the Lender to cover the cost of compliance with the Bank of England and FCA requirements or the requirements of the European Central Bank) per annum. The Export Credit Facility is due for repayment in 14 equal instalments payable semi-annually, starting not later than 20 months after 24 October 2011 and ending no later than the date 78 months after the first repayment. See "*Funding—Amounts Due to Credit Institutions*".

Management believes there is a strong potential for growth in insurance and healthcare businesses in Georgia, reflecting the relatively low insurance penetration. Health, life and P&C insurance gross premiums written (GPW) represent only 1.4%, 0.1% and 0.5% of GDP, respectively. Furthermore, Government spending in the healthcare sector has increased over the past few years and, in 2014, the Government intends to spend 9.4% of total expenditure, as compared to an estimated 8.5% in 2013 and 5.1% in 2012. Aldagi, as the country's largest healthcare provider, is well positioned to benefit from the recently adopted state-funded universal healthcare coverage. To this end, the Management aims to put more emphasis on the growth of the Group's healthcare business, and may consider a public offering of Aldagi's healthcare business in the near future. With a track record of successful mergers and acquisitions of regional hospitals and effective restructuring, Management believes the Group is well positioned for further expansion in Tbilisi through mergers and acquisitions. (Currently, the Group's healthcare facilities are mostly concentrated in Western Georgia).

Affordable Housing

There is currently unsatisfied demand for affordable housing in Tbilisi. The housing market in Tbilisi is characterised by depreciated housing stock, an average household size as high as 3.6, according to the Georgian Residential Market Report prepared by Gremo and Jones Lang Lassale and a lack of investment as a result of the three leading real estate developers in the Georgian market ceasing construction and trading during the downturn. The Group's wholly owned subsidiary, m2 Real Estate, is engaged in real estate development and also offers property management, project management and brokerage services. The Bank has contributed to m2 Real Estate certain real estate assets that it repossessed during the recent financial crisis. In order to improve the liquidity of the repossessed real estate assets, to stimulate the Group's mortgage lending business and to capitalise on the market opportunity in the affordable housing segment in Georgia, the Group has started and intends to continue to develop, and then sell or lease, such real estate assets through m2 Real Estate. The Group intends to outsource the construction and architecture works and focus on project management and sales as it believes that the Bank's well-established brand name and superior distribution channels (including the 197 branches) and 2,044 person sales force it had as of 30 June 2013 will assist it in marketing its properties and mortgages. In the pilot project of building and selling small-format apartments, demand was high supporting price increases from the initial US$850 per square metre to US$1,000 per square metre. m2 Real Estate completed the pilot project at the beginning of 2013, selling all apartment of the 123 apartment building with total buildable area of more than 15,000 square meters. The construction of the second housing project of 522 apartment building with total buildable area of more than 63,000 square meters is now in progress. As of 30 June 2013, 68% of the apartments in the second housing project have been pre-sold. The Group does not intend to purchase additional real estate, although it may acquire more land through repossessions. In December 2011, m2 Real Estate procured $20 million in funding from FMO to proceed with a new development project, and construction commenced in 2012 and is expected to be completed in 2014. In May 2013, the Bank announced that IFC, a member of the World Bank Group, with the support of the Government of Canada, will provide m2 Real Estate with a revolving loan of up to US$14.0 million (including up to US$4.0 million from the IFC-Canada Climate Change Programme) to support green housing construction and job creation in Georgia. The facility will help m2 Real Estate develop energy efficient, affordable and quality housing projects in Georgia addressing housing deficit.

Non-Core Businesses

In addition to its operations in Georgia, the Group provides retail banking and corporate banking services in Belarus, and maintains a brokerage and investment banking business in Belarus (which it is in the process of exiting), as well as a number of non-core investments in Georgia. For the six months ended 30 June 2013 and in the year ended 31 December 2012 the Group's non-core businesses generated 6.1% and 6.8%, respectively, of the Group's total revenue.

Belarus banking operations

The Group's Belarus banking business is operated through its subsidiary BNB, which was one of the first privately owned commercial banks in Belarus, established in 1992. As of 30 June 2013, the Group owned a 79.99% stake, while IFC held a 19.99% stake in BNB. BNB offers retail and corporate banking services principally to SMEs (being SMEs in Belarus who have a total annual turnover of less than GEL 12.5 million (US$7.5 million) or the equivalent), micro-loan clients and middle-income retail banking customers. As of 30 June 2013, BNB had total assets of GEL 230.3 million (US$139.5 million), total equity of GEL 49.6 million (US$30.0 million) and net interest income of GEL 8.4 million (US$5.1 million). BNB accounted for 4.8% of the Group's revenue for the year ended 30 June 2013 and 4.0% of its total assets as of 30 June 2013. BNB made a net profit of GEL 3.3 million (US$2.0 million) and GEL 6.8 million (US$4.1 million), respectively, in the six months ended 30 June 2013 and in 2012. The Group's operations are affected by the Lari to Belarusian Rouble exchange rates as these affect the value of the Group's equity interests in BNB on a consolidated basis and affect its ability to comply with contractual covenants based on the Basel I Total Capital, calculated on a consolidated basis. The Bank aims to grow BNB's business with a view to an eventual exit from the business in the future.

Brokerage and Related Services

The Group conducts its brokerage and investment banking business in Georgia through its subsidiary, BG Capital. BG Capital provides equity research, sales, execution and capital raising advisory services to private and institutional customers. BG Capital maintains a limited proprietary book of selected equities and fixed income securities with an aggregate value of GEL 2.1 million as of 30 June 2013. The Bank believes that its Georgian brokerage and investment banking services provide synergies with its strategic investment management and corporate banking operations. In order for the Group to focus on its strategic businesses, in February 2012, BG Capital completed proceedings to voluntarily wind-up BG Capital, Ukraine.

Liberty Consumer

The Group owns a portfolio of investments in Georgian businesses engaged in consumer-driven sectors and business services though Liberty Consumer, a Georgia-focused investment company in which the Bank held a 68% stake as of 30 June 2013. Liberty Consumer's strategy is to sell its equity interests in its portfolio companies in the short-to medium-term, following which the net proceeds will be distributed to the shareholders of Liberty Consumer.

Distribution Network

The Bank has a multi-faceted distribution network for its customers, which includes full-service branches, standard branches, Express Banking branches (including Metro branches), ATMs and remote banking as well as outlets located at various third party businesses, including, for example, supermarkets and auto dealerships.

Branches

As of 30 June 2013, the Bank had 197 branches in Georgia, including full-service flagship branches, standard branches and Express Banking branches (including Metro branches), as compared to 194, 158 and 142 branches as of 31 December 2012, 2011 and 2010, respectively. The increase in the number of branches since the year-end of 2011 primarily reflected the expansion of the Bank's Express Banking service, with 30 Express Banking branches opening in 2012, as compared to 6 conventional branches. The increase in the number of branches in 2011 as compared to 2010 primarily reflected an increase in the new branches in regions where the Group did not previously have a presence and the opening of its first nine Express Banking branches at the end of 2011. With the view to increasing branch efficiencies, between 31 December 2010 and 31 December 2011, the Bank has successfully reduced the levels of back office functions at 94 branches. Since December 2011, the Bank has also operated Express service points that are small-format service points, providing clients with ATM and Express Pay (self-service) terminals and access to internet banking facilities. As of 30 June 2013, the Bank operated 870 such Express Pay (self-service) terminals. The Express Pay (self-service) terminals also enable clients to open small deposit accounts and receive low value cash loans instantly, thereby reducing the number of low value transactions taking place in branches and allowing employees in branches to focus on selling higher value products and services, thereby enhancing efficiency in branches. See "*—Strategic Businesses—Retail Banking*".

Terminals

As of 30 June 2013, the Bank had 870 Express Pay (self-service) terminals in Georgia to provide its retail banking customers the opportunity to make utility payments and credit repayments at a wider variety of locations.

ATMs

As of 30 June 2013 and 31 December 2012, the Bank had the largest ATM network in Georgia, comprising 481 and 478 ATMs, respectively. For further information see, "*—Strategic Businesses—Retail banking—ATM network*".

Remote Banking

In May 2008, the Bank launched a new universal remote banking platform for multiple communication channels (internet, telephone, SMS, mobile and e-mail-based banking services), which enables customers to remotely perform a wide range of transactions. See "*—Strategic Businesses—Retail banking—Internet, telephone, SMS and e-mail*" above. As of 30 June 2013, 273,739 retail customers and 13,494 corporate banking customers were registered to use the Bank's internet banking services and 475,970 retail banking customers and 10,363 corporate banking customers were registered to use the Bank's SMS-based mobile telephone banking services.

Information Technology

The Bank views IT as an integral part of its daily operations and is committed to modernising its existing information technology infrastructure and continuing to invest in information technology in order to improve service and efficiency. The Bank seeks reliability, safety, quality, efficiency and scalability in its information and computer systems. All major IT infrastructure components used by the Bank are clustered. The Bank has developed a disaster recovery (DR) strategy and has implemented a plan that details all the procedures and actions necessary for business continuity. The Bank's remote data centre is an autonomous facility that runs back-up systems designed to ensure operations are not disrupted during critical or disastrous events. The Bank also has hardware and software to facilitate parallel operations and protect permanent data. The Bank has modernised its core IT system over the past three years in order to increase its capacity, improve fault tolerance and reduce downtime. The Bank currently utilises a number of high-grade software systems, including the Va-Bank core banking system based on Oracle technology, a CISCO platform for the Bank's call centre and CRIF/Strategy One, a credit-scoring and workflow system used by the Bank for consumer lending. In 2008, the Bank launched a new universal remote banking platform for multiple communication channels based on customised software developed by the Bank's IT team. The Bank develops its core systems software (core banking software, internet and mobile banking software) internally. SUN Microsystems hardware is used for the database servers of the core banking system and all other applications are operating on HP Intel hardware. The Bank was the first institution in Georgia to purchase a high-grade processor and storage system. The Bank uses loan origination systems StrategyOne and CreditFlow developed by CRIF decision Solutions. StrategyOne assists the Bank in identifying the most profitable customers and managing risks by automating and standardising its decision-making processes. CreditFlow helps automate internal workflows by orchestrating manual activities and business rule execution, connecting participants and integrating all systems involved in meeting its end-to-end origination process needs. The Bank also uses an automated loan collection system involving Clever, a software platform developed by CRIF, to manage the overdue loans portfolio effectively and to improve debt collection rates. In October 2010, the Bank signed an agreement with Softscape for the deployment of a new automated human resource management system to assist the Bank in identifying its workforce potential and to provide a useful analytical tool in relation to data relating to employee performance and development.

The Bank invested GEL 5.7 million (US$3.5 million),), GEL 6.4 million and GEL 5.4 million in information technology in the years ended 31 December 2012, 2011 and 2010, respectively.

Property

On 15 November 2011, the Bank moved to a new head office at 29a Gagarini Street, Tbilisi, 0160, Georgia, following the completion of renovation works which cost GEL 31.1 million. The Bank previously rented 12 properties for back office employees in different parts of Tbilisi and spent GEL 1.1 million on rent and communication services in the year ended 31 December 2010. The new, larger head office building is able to accommodate all back office employees and functions in one place, which the Bank Management Board believes will lead to efficiency savings on rent and communication expenditure. The Bank owns its new head office, as well as its old head office (which is located at Freedom Square, 3 Pushkin Street, Tbilisi, 0105, Georgia). Aldagi rents the Bank's old head office and uses it as Aldagi head office in Tbilisi.

The Bank either owns or leases all of the premises it uses for banking and other services. As of 30 June 2013, the total net book value of the investment property owned by the Group on a consolidated basis was GEL 169.7 million (US$102.8 million). As of the date of this Prospectus, there are no liens or encumbrances over any material real estate and land owned by the Bank.

Intellectual Property

Bank of Georgia has registered its principal logos and trademarks in Georgia. In addition, the Bank has registered all principal domain names related to the Group's business. In September 2008, the Bank applied to the World Intellectual Property Organisation ("**WIPO**") for registration of its logo (IR 988 561, stylized image of a lion) in all the WIPO member states, except for the United Kingdom, Belarus, Ukraine and Israel for which the Bank successfully registered its logos separately with each of the relevant authorities in these jurisdictions. As of the date of the Prospectus, 71 WIPO countries have registered the above mentioned logo. In September 2008, the Bank applied to the WIPO for registration of its trademark (IR 987512, logo and the name) in Azerbaijan, Belarus, the United Kingdom, Moldova and Ukraine and has also filed an individual application for the registration of its trademark in Israel. All of these countries have registered the trademark (logo and the name). None of the Bank's intellectual property assets are considered to be material to the Bank's business.

INDUSTRY

Introduction

The Georgian banking sector consists of Georgian banks, non-bank depository institutions and microfinance organisations. Non-bank depository institutions and microfinance organisations provide only limited banking services, such as accepting deposits from and issuing loans to their members only (in the case of non-bank deposition institutions), or issuing micro-loans (in the case of microfinance organisations), while banks provide a wide range of banking services. The NBG is the regulator of the financial sector and it supervises the banking sector and the securities market. The responsibilities of the NBG relevant to the supervision of commercial banks include issuing licences, establishing mandatory financial ratios, regulating accounting and reporting rules and supervising compliance with laws and regulations. The NBG is Georgia's central bank and it establishes minimum reserve requirements for commercial banks. Among its other responsibilities, the NBG establishes Georgian monetary policy, controls inflation, issues money and ensures effective functioning of payment systems.

As of 31 August 2013, there were 21 commercial banks registered in Georgia with general banking licences enabling them to perform banking transactions. According to information published by the NBG (based on data provided to the NBG by Georgian banks), as of 30 June 2013, the aggregate assets of all banks in Georgia were approximately GEL 14.9 billion, with the five largest banks accounting for approximately 79.1% of such assets.

History of the Georgian Banking Sector

The Georgian banking sector was transformed immediately upon Georgia's independence from the Soviet Union in 1991, when a two-tier banking system was introduced: the former GosBank (State bank of the Soviet Union), Georgia branch became the NBG and various commercial banks were established in mid-1991. Subsequently, the five state-owned Georgian banks (Eximbank, Savings Bank, Agromretsvbank, Mretsvmshenbank and Binsotsbank) were fully privatised in the period from 1993 to 1995.

The NBG was established as an independent supervisory, regulatory and monetary body although many of the practices in place when it was part of the Soviet Union remained largely unchanged. In particular, it was still directly influenced by the Government of Georgia and was required to finance the budget deficit and continued to provide indirect loans to state-owned enterprises in Georgia.

During the period from 1991 to 1994, Georgia experienced intense political and economic turmoil resulting from the break-up of traditional trade relations within the Soviet Union, followed by a military coup, a civil war and two secessionist wars. As a result, Georgia experienced one of the deepest economic recessions among the former Soviet Union states. By 1994, the majority of commercial banks were in financial difficulty and, as a result of hyperinflation, bank deposits had lost almost all of their value.

On 23 June 1995, the Parliament adopted the Organic Law of Georgia on the National Bank of Georgia (the "**1995 NBG Law**"), and on 23 February 1996, it adopted the Law of Georgia on the Activities of Commercial Banks (the "**Banking Law**"), which strengthened the independence of the NBG and granted it more authority to suspend the licences of those banks which failed to meet prudential regulations. The NBG's banking supervision policy was based on the "25 Key Principles for Effective Banking Supervision" developed by the Basel Committee on Banking Supervision. Furthermore, new rules and procedures to regulate banking activities were introduced that envisaged the creation of a new system of assets classification in order to: identify credit risks with greater precision, enhance external and internal auditing functions and eliminate conflicts of interests in banking activities.

In 1997, further banking industry regulations came into force. The NBG lowered reserve requirements in an attempt to encourage greater financial intermediation in Georgia. At the same time, the minimum capital adequacy ratio was increased from 8.0% to 10.0% of total assets. In January 1997, the NBG announced its plan to gradually increase the minimum capital requirement for commercial banks to GEL 5.0 million by the end of 2000, in order to promote further consolidation of the banking sector. Throughout 1998, the NBG pursued this objective by revoking the licences of banks which failed to meet minimal capital requirements and other prudential regulations.

The Russian financial crisis, which occurred in 1998, led to a devaluation of the Lari by 40.0%, a consequent reduction in commercial bank deposits, and a significant slowdown in GDP growth. The NBG introduced stricter prudential regulations in order to stabilise the Georgian banking sector and prepared a plan to assist banks to maintain their liquidity by offering short-term liquidity loans.

In 1999, new accounting rules consistent with international accounting standards were introduced and minimum capital adequacy requirements were further strengthened from 10.0% of total assets, to 12.0% of risk-based assets of Tier I capital and 15.0% for total capital. Currently, minimum capital adequacy requirements are that Tier I capital to risk-weighted assets must not be less than 8% and total capital to risk-weighted assets must not be less than 12%. Furthermore, the NBG recommended that banks appoint international firms to carry out external audits after February 1999.

In 2000, the NBG introduced the CAEL (Capital, Assets, Equity and Liquidity) methodology for the assessment of the financial position of operating commercial banks. This system, which has evolved into and is now known as the CAMEL (Capital, Assets, Management, Equity and Liquidity) system, is routinely used by regulators to assess the performance of banks and develop a set of recommendations as to what measures need to be taken to induce improvements to the financial and operating results of the banking institution in question.

A number of reforms were undertaken by the NBG in 2001. The NBG introduced rules for asset classification and provisioning, and utilisation of loan loss reserves by Georgian commercial banks that defined criteria for, among other things, a risk-weighted classification of bank loans (including contingent liabilities), inter-bank deposits, foreclosed collateral and the provisioning of loan loss reserves. In order to avoid conflicts of interest and prevent improper use of managerial privileges, a decree dealing with conflicts of interest and related party transactions in commercial banks was approved by the NBG in 2001. Furthermore, during the same year, the NBG introduced internal audit requirements for commercial banks, obliging them to establish internal audits in order to control their banking operations.

In 2002, the NBG adopted a regulation on "Fit and Proper Criteria" for commercial bank administrators. The "Fit and Proper Criteria" has been amended several times during the period from 2002 to 2008 to provide clarification and rules governing its application.

To gradually increase the level of capitalisation and move towards European standards, in 2003, the NBG increased the minimum amount of required capital for Georgian commercial banks to GEL 12.0 million. During the same year, the NBG circulated an official letter to commercial banks requesting that they begin to introduce the best corporate governance practices based on the 1999 OECD Corporate Governance Principles.

During 2004 and 2005, the NBG continued to amend various regulations to facilitate the development and stability of the Georgian banking sector. The NBG relied principally on the key principles published by the Basel Committee on Banking Supervision.

In 2006, a restriction on the ownership of more than 25% of a Georgian commercial bank was repealed in order to promote investments in the banking sector, although the acquisition of more than 10%, 25% and 50% of a commercial bank in Georgia still requires NBG consent and compliance with certain eligibility criteria. The same year, certain measures were taken to increase the transparency of the banking sector, including obliging commercial banks to publish quarterly financial reports.

In 2008, the NBG approved comprehensive guidelines on risk management in Georgian commercial banks. As a result of such guidelines, each commercial bank is required to analyse its risk management systems, design a plan of action aimed at compliance with the guidelines and designate a person or group of persons responsible for preparing such an action plan.

In March 2008, major reforms were carried out in the financial sector regulatory system of Georgia. Based on the amendments to the 1995 NBG Law, the Financial Supervisory Authority ("**Georgian FSA**") was established to take over all supervisory functions of the NBG related to commercial banks and non-bank deposit institutions, except for the supervision of the minimum reserve requirements. The Georgian FSA also had the authority to supervise the securities market and insurance companies.

On 24 September 2009, the Parliament adopted a new Organic Law of Georgia on the National Bank of Georgia (the "**NBG Law**") which came into effect on 12 October 2009 and which led to the liquidation of the recently established Georgian FSA (as of 1 December 2009) and the transfer of the Georgian FSA's regulatory and supervisory functions back to the NBG. The NBG became the legal successor of the Georgian FSA. However, all of the licences, permits and registrations issued by the Georgian FSA remain valid. The NBG Law provides that, unless and until the NBG implements new rules and regulations to replace those that were previously adopted by the Georgian FSA, the Georgian FSA rules and regulations will remain in force. As a result, there may be some confusion as to which rules and regulations are in force at any one time. In this Prospectus, Georgian FSA rules and regulations that currently remain in force are referred to as NBG/ Georgian FSA rules or regulations.

In 2010, various bylaws were revoked and replaced as the NBG tried to revise legislation that it, and other former regulators of the financial sector, had passed. In May 2010, a new settlement system was introduced in IBAN format, which became mandatory for payments from 1 January 2013. In addition, in December 2010 a new payment and securities system (GPSS) was introduced, which comprises a real time settlement (RTGS) and securities settlement (CSD) module. Among other things, the NBG continued efforts to harmonize the financial reporting of the commercial banks with international standards. A new rule on the External Audit of Commercial Banks was adopted in October 2010, which, according to NBG, is in full compliance with international audit standards and regulates relations between regulators and external auditors.

In December 2010, the Basel Committee on Banking Supervision published the Basel III rules setting out certain changes to capital requirements applicable to banks. Implementation of the new combined regulation based on Basel II and Basel III will occur at a national level in 2014. The NBG is currently in the process of implementing Basel II and Basel III in Georgia. On 18 October 2013, the NBG published a draft regulation for capital adequacy based on Basel II and Basel III, which makes adjustments to certain Basel II and Basel III rules, including those relating to foreign currency additional risk weights, specific measurements and risk estimates. As notified by the NBG, the Group expects the implementation of Basel II and Basel III on 30 June 2014 for Pillar I and 30 September 2014 for Pillar II. See "*Regulation of the Georgian Banking Sector—Mandatory Financial Ratios*".

In May 2011, the NBG adopted the rule on Supplying the Customers with Necessary Information During the Provision of Banking Services by Commercial Banks which applies to contracts with a total value between GEL 300 and GEL 50,000. This new regulation, among other things, requires commercial banks to provide in customers' contracts, true, comprehensible and complete information regarding the bank's products, including all costs related to credits and deposits, rules on calculation of effective interest rates, information on currency risks and procedures of amending contracts.

In June 2011, the NBG introduced consumer protection regulations in order to improve the transparency of the retail product offerings of banks operating in Georgia. It also capped the prepayment fees that banks can charge their customers at 2%, which remains effective until 1 January 2014.

Overview of the Georgian Banking Sector

The Georgian banking sector has experienced rapid growth in recent years. However, in 2008, Georgian commercial banks faced certain difficulties, which negatively affected certain performance indicators of the commercial banks, such as net profit and return on assets and equity. According to the IMF, the deterioration of banking sector conditions in 2008 was attributable to the rapid credit growth in the immediately preceding years, the 2008 Conflict, the impact of the global financial crisis and the devaluation of the Lari in November 2008. The Georgian banking sector stabilised over the course of 2009 and has experienced continued growth since late 2009.

According to the NBG, the total assets of the Georgian banking sector were GEL 14.9 billion (US$9.0 billion) as of 30 June 2013 and GEL 14.4 billion (US$8.7 billion) as of 31 December 2012, as compared to GEL 12.7 billion as of 31 December 2011 and GEL 10.6 billion as of 31 December 2010. Aggregate loans granted by Georgian banks were GEL 9.2 billion as of 30 June 2013 and GEL 8.7 billion as of 31 December 2012, and the ratio of loans to GDP as of 31 December 2012 was 33.4%, as compared to 31.8% as of 31 December 2011 and 30.2% as of 31 December 2010. The aggregate statutory shareholders' equity of Georgian banks was approximately GEL 2.6 billion (US$1.6 billion) as of 30 June 2013 and GEL 2.4 billion (US$1.4 billion) as of 31 December 2012, as compared to GEL 2.1 billion as of 31 December 2011 and GEL 1.8 billion as of 31 December 2010. The aggregate net profit of Georgian banks was approximately GEL 152.9 million (US$92.6 million) for the first half of 2013 and GEL 134.2 (US$81.0) million for the year ended 31 December 2012, as compared to GEL 323.0

million in 2011 and GEL 156.1 million in 2010. The return on average assets ("**ROAA**"), (based on monthly average assets) of the banking sector for the year ended 31 December 2012 was 1.0%, as compared to 2.9% for 2011 and the return on average equity ("**ROAE**") (based on monthly average equity) for the year ended 31 December 2012 was 5.9%, as compared to 17.3% for 2011. The ROAA (based on monthly average assets) was 2.9% and ROAE, based on monthly average equity, was 12.2% as of 30 June 2013. From 31 December 2011 to 31 December 2012, the Georgian banking sector's assets grew by 13.2%, while aggregate loans granted by Georgian banks also increased by 12.8% during the same period.

The following table sets out certain information on the banking sector in Georgia, Russia, Kazakhstan and Ukraine as of December 2012.

Country	**Loan penetration**	**Deposit penetration**
	(%)	
Georgia	33.7%	31.4%
Russia	54.3%	31.9%
Kazakhstan	33.0%	29.8%
Ukraine	57.9%	40.6%

Source: IMF, Central Banks

The following table sets out information on the Georgian banking sector and the five largest banks in Georgia as a group.

	As of 30 June			**As of 31 December**								
	2013			**2012**			**2011**			**2010**		
GEL thousands	**Five largest Georgian banks**	**Total Georgian banking sector**	**Five largest banks as a% of sector**	**Five largest Georgian banks**	**Total Georgian banking sector**	**Five largest banks as a% of sector**	**Five largest Georgian banks**	**Total Georgian banking sector**	**Five largest banks as a% of sector**	**Five largest Georgian banks**	**Total Georgian banking sector**	**Five largest banks as a% of sector**
Total assets	11,809,616	14,931,633	79.1%	11,711,087	14,354,701	81.6%	10,146,747	12,679,085	80.0%	8,249,700	10,564,217	78.1%
Gross loans	7,242,003	9,208,607	78.6%	7,082,547	8,733,255	81.1%	6,200,417	7,739,057	80.1%	4,943,616	6,260,705	79.0%
Total deposits	7,318,657	8,998,749	81.3%	6,894,154	8,186,787	84.2%	6,206,845	7,352,196	84.4%	4,658,493	5,817,653	80.1%
Shareholders' equity	1,916,324	2,612,942	73.3%	1,859,285	2,390,064	77.8%	1,511,350	2,104,361	71.8%	1,315,738	1,787,647	73.6%
Net income	111,420	152,935	72.9%	211,282	134,231	NMF	285,864	323,037	88.5%	175,644	156,105	112.5%

Source: NBG

The largest Georgian banks all have their headquarters in Tbilisi, and the Georgian banking sector has been marked by increased foreign investment and consolidation over the past three years.

In recent years, the Georgian banking sector has become increasingly competitive. According to the NBG, as of 31 August 2013 there were 21 commercial banks and foreign bank branches operating in Georgia, 19 of which (including two branches of foreign banking institutions) had foreign capital participation. Bank of Georgia considers its principal competitors to be TBC Bank, Bank Republic, ProCredit Bank and VTB Georgia. The Bank faces particular competition from ProCredit Bank in relation to ProCredit Bank's large market share in SME and micro financing in Georgia. TBC Bank and Bank Republic are the Bank's competitors in the corporate sector. In addition, both the mortgage market and the market for the provision of financial services to high net worth individuals are highly competitive in Georgia, with some competitors in the mortgage market implementing aggressive pricing policies in order to retain or build their market share. In Belarus, the Group also competes with a wide range of local (including state-owned) and international banks.

Despite significant competition, the Bank Management Board believes that the Bank is well placed to retain its dominant market position among the top banks in Georgia that offer a wide range of retail and corporate products and services. See "*Risk Factors—Additional Risks Affecting the Group—The Group faces competition*".

Assets and Liabilities, Credit Quality and Interest Rates

The majority of the assets of Georgian banks comprise loans to private sector borrowers (excluding inter-bank loans). According to information published by the NBG (based on data provided to the NBG by Georgian banks), in 2010 loans to private sector borrowers (excluding inter-bank loans) and investment securities represented 59.2% and 7.6% of total assets of Georgian banks, respectively, as compared to 60.7% and 7.5% in 2011, and 60.7% and 7.5% in 2012. As of 30 June 2013, loans to private sector borrowers (excluding inter-bank loans) accounted for 61.4% of total assets, while investment securities represented 9.6%. Aggregate loans amounted to GEL 8.7 billion as of 31 December 2012, representing an increase of 12.8% year-on-year. According to the NBG, due to the effects of the economic crisis in 2008 and 2009, the overall quality of loans granted by Georgian banks deteriorated as reflected in the increase of loan loss reserves/gross loans ratio, from 9.0% in 2008 to 12.7% in 2009. There has been an increase in long-term loans (with a maturity of more than one year), from 73.6% of total gross loan portfolio (including accrued interest) as of 1 January 2009 to 75.2% as of 1 January 2013. According to the NBG, the overall quality of loans granted by Georgian banks in 2011 improved and there was a decrease in the loan loss reserves/gross loans ratio to 7.0% from a loan loss reserves/gross loan ratio of 9.4% as of 31 December 2010. Loan loss reserves as of 31 December 2011 amounted to GEL 536.3 million, as compared to GEL 587.5 as of 31 December 2010. As of 30 June 2013 and 31 December 2012, loan loss reserves/gross loan ratio stood at 7.3% and 7.0%, respectively. Loan loss reserves as of 30 June 2013 amounted to GEL 670.0 million, as compared to GEL 609.0 million as of 31 December 2012

In 2010, the majority of aggregate liabilities in the banking sector were attributable to deposits and borrowings, of which non-bank and bank deposits accounted for 66.3% and borrowings for 29.9% of total liabilities, while as of 31 December 2012 and 2011, non-bank and bank deposits accounted for 68.6% and 69.5%, respectively, and borrowings for 27.3% and 25.0% of total liabilities, respectively. As of 30 June 2013, non-bank and bank deposits accounted for 73.2% and borrowings for 23.5% of banking sector liabilities. In 2009, the majority of aggregate liabilities in the banking sector were attributable to deposits and borrowings, of which non-bank and bank deposits accounted for 61.6% and borrowings for 34.9% of total liabilities. In 2010, total deposits grew by 39.4%, while GEL denominated total deposits increased by 47.8% and foreign currency denominated customer deposits grew by 35.6%. From 31 December 2010 to 31 December 2011, customer deposits grew by 26.4%, while GEL denominated customer deposits grew by 56.1% and foreign currency denominated customer deposits increased by 11.7% by 31 December 2011. From 31 December 2011 to 31 December 2012, customer deposits grew by 11.6%, while GEL denominated customer deposits decreased by 1.1% and foreign currency denominated customer deposits increased by 20.3%. From 31 December 2012 to 30 June 2013, total deposits grew by 9.9%, while GEL denominated customer deposits grew 16.9% and foreign currency denominated deposits grew 5.9%.

Based on information published by the NBG (based on data provided to the NBG by Georgian banks), average interest rates on loans granted by commercial banks were 18.6% in 2010, 17.1% in 2011, 16.9% in 2012 and 16.3% in the first half of 2013. Average interest rates on loans denominated in GEL were 22.6% in 2010, 22.6% in 2011, 22.1% in 2012 and 21.5% in the first half of 2013 and the average interest rate on foreign currency loans was 17.2% in 2010, 14.9% in 2011, 14.4% in 2012 and 13.7% of the first half of 2013. Average interest rates on foreign currency bank deposits were 8.8% in 2010, 8.1% in 2011, 8.2% in 2012 and 7.6% in the first half of 2013, whereas average interest rates on Lari-denominated bank deposits, were 8.3% in 2010, 9.0% in 2011, 9.3% in 2012 and 9.0% in the first half of 2013.

Based on information published by the NBG, the NBG's gross international exchange reserves increased during 2009 and 2010 and comprised approximately US$2.3 billion by the end of 2010. Gross international exchange reserves reached US$2.8 billion as of 31 December 2011, US$2.9 billion as of 31 December 2012 and GEL 3.0 billion as of 30 June 2013, according to the NBG. The official average monthly exchange rate of the Lari against the US dollar depreciated by approximately 5.0% in December 2010, as compared to December 2009, appreciated by 5.8% in December 2011, as compared to December 2010, appreciated by 0.02% in December 2012 as compared to December 2011 and appreciated 0.2% in June 2013 as compared to December 2012. Inflation as measured by period-end CPI changed from 11.2% in 2010 to 2.0% in 2011 and -1.4% in 2012. In June 2013, period end inflation was 0.2%.

Dollarisation of the Georgian Economy

Following the economic and political uncertainties of the early 1990s and subsequent hyper-inflation, the Georgian economy underwent a process of dollarisation, whereby the US dollar and other freely convertible currencies became the major means of payment and wealth accumulation in Georgia. This process was encouraged by the financial liberalisation of the mid-1990s, which allowed domestic financial intermediation to be conducted in both national and foreign currencies.

Dollarisation (foreign currency deposits as a percentage of total deposits) subsided with the stabilisation of the economy in 1995, only to increase again after the Russian financial crisis of 1998. The majority of deposits in the Georgian banking sector are still held in foreign currencies. The dollarisation rate declined between 2004 and 2008, with foreign currency deposits declining from approximately 86.1% of all amounts due to customers as of 1 January 2004 to 64.4% as of 1 January 2008. However, the dollarisation rate then increased as a result of the combined effects of the 2008 Conflict and the global financial crisis on Georgia. The dollarisation rate increased to 73.6% as of 1 January 2009, primarily as a result of the devaluation of the Lari by 16.1% in November 2008, a measure aimed at alleviating the negative impact of the global financial crisis on the Georgian economy. The dollarisation rate has since decreased to 68.8% as of 1 January 2010, 67.0% as of 1 January 2011, 59.2% as of 1 January 2012 and 61.5% as of 1 July 2013.

Based on information published by the NBG, the portion of loans denominated in foreign currency decreased from 76.8% as of 1 January 2010 to 74.0% as of 1 January 2011 and 68.9% as of 1 January 2012, respectively. The portion of loans denominated in foreign currency decreased to 67.6% as of 1 January 2013 and to 66.4% as of 1 July 2013. The portion of short-term loans denominated in foreign currency decreased from 59.3% as of 1 January 2010 to 54.7% as of 1 January 2011 and 46.5% as of 1 January 2012, while the portion of long-term foreign currency-denominated loans (with a maturity of one year or more) decreased from 82.5% as of 1 January 2010, to 80.8% as of 1 January 2011 and 76.2% as of 1 January 2012. As of 1 January 2013, the portion of short-term loans denominated in foreign currency amounted to 45.1%, while the portion of long-term foreign currency denominated loans (with the maturity of one year or more) was 73.1% as of 1 July 2013. The NBG has taken steps to stimulate demand for the Lari, including the introduction of differentiated reserve requirements for domestic and foreign currencies**.** Various policies of the Government of Georgia have also led to increased demand for the Lari. For example, contraction of the shadow economy traditionally served by the US dollar naturally led to its replacement by the national currency. In May 2013, the NBG began loan repo transactions with commercial banks at a 20% discount from the nominal value of Lari denominated mortgages as well as Lari denominated micro and SME loans. NBG lends to participant banks at a floating rate equal to the NBG regular refinancing market rate. This programme is aimed to help the NBG's efforts to de-dollarise the banking sector and is also beneficial from a regulatory capital perspective, since GEL denominated loans require lower regulatory capital.

Foreign Investment

Though direct competition from foreign banks is not currently significant, there are currently no legal or regulatory barriers impeding foreign investment in the Georgian banking sector. Until March 2006, no Georgian or foreign legal or natural person (other than a bank) could own more than 25.0% of a Georgian bank.

Based on the NBG 2011 Annual Report, the share of the non-residents beneficiary owners in the banks' paid-in capital amounted to 85.6% as of February 2012. According to the NBG as of 30 June 2013, there were 21 commercial banks and foreign bank branches operating in Georgia, 19 of which (including two branches of foreign banking institutions) had foreign capital participation.

Major foreign investors in the Georgian banking sector include the EBRD, FMO, IFC, DEG, Société Générale (France), Kreditanstalt für Wiederaufbau (the German Reconstruction Credit Institution or KfW), Joint Stock Company Procredit Holding, VTB Bank (Russian Federation), BTA (Kazakhstan), Halyk Bank (Kazakhstan), International Bank of Azerbaijan, Development Bank of the Caucasus (Azerbaijan), HSBC Europe (the Netherlands), Ziraat Bank (Turkey) and Privatbank (Ukraine).

Concentration within the Banking Sector

Recent years have been marked by increasing consolidation and concentration within the Georgian banking sector. According to information published by the NBG, as of 30 June 2013, the aggregate assets of all banks in Georgia were approximately GEL 14.9 billion (US$9.0 billion), with the five largest banks accounting for approximately 79.1% of such assets.

Payment Systems

At the end of the 1990s, the Georgian banking sector began to develop real-time settlement systems and implement the centralised system of Society for Worldwide Inter-bank Financial Transactions, "SWIFT". Banking card processing companies were established and Georgian banks began to issue international bank cards. The number of ATMs and POS terminals throughout Georgia has significantly expanded over the last few years and a number of initiatives to pay salaries to employees via banking cards (rather than in cash) have been implemented. All major card systems are accepted in Georgia, including VISA, MasterCard, American Express and Diners Club. All bank transfers are now done electronically and a clearing system for VISA card transactions in Lari (known as GNNSS) has been introduced. International and domestic money-transfer systems are widely used in commercial banks. In May 2010, a new settlement system was introduced in IBAN format, which will become mandatory for payments starting 1 January 2013. In addition, in December 2010 a new payment and securities settlement system (GPSS) was introduced, which comprises a real time gross settlement (RTGS) and full versus payment (DvP)/free of payment (FoP) securities settlement (CSD) modules. According to the NBG, the total value of bank card transactions carried out using cards issued by resident issuers amounted to GEL 5.4 billion in 2010, GEL 7.0 billion in 2011, GEL 7.7 billion in 2012 and GEL 4.0 billion in the first half of 2013. On 1 July 2012, a new Law of Georgia on Payment System and Payment Service (the "**Payment Systems Law**") came into force. Pursuant to the provisions of that law, a number of concepts are being introduced to the governing statutory framework for the operation of commercial banks, including, among others, the notion of financial collateral (pledge), which, if and to the extent perfected, will be given preferential treatment during the temporary administration and liquidation of a commercial bank. The Payment Systems Law also introduces new principles to payment system regulation, such as the finality of settlement, which signifies a transfer order that is irrevocable, unconditional and enforceable by an account provider or settlement agent in the execution of a transfer instructed by, or on behalf of, an account holder. The Payment Systems Law also regulates the delivery of payment services, which, among other things, include the issuance and acquisition of payment instruments, including electronic money instruments; the issuance and use of electronic money to conduct payment operations via telephone, internet or other electronic means; and the fulfilment of payment transactions through, among others, telecommunication, digital and information technologies. Based on the Payment Systems Law, relevant amendments have also been made to the Banking Law that authorise commercial banks to engage in additional types of banking activity, namely to provide payment services, operate payment systems and act as settlement agents. The NBG has been granted the authority to supervise these matters through the registration of payment system operators and payment service providers, as well as establish minimum requirements, limitations and sanctions.

Credit Ratings

On 29 March 2011, Standard & Poor's revised its outlook on Georgia to "positive". On 12 April 2011, Georgia issued new US$500 million ten-year sovereign bonds and redeemed previous five-year sovereign bonds due in 2013. Standard & Poor's rating of the 2021 sovereign bonds on their issue date was "B+". On 22 November 2011, Standard & Poor's Ratings raised its long-term foreign and local-currency ratings on the Government of Georgia from "B+" to 'BB-'. At the same time, the short-term foreign and local-currency ratings were affirmed at 'B'. The outlook on the ratings is stable. Fitch Ratings, plc ("**Fitch**") also upgraded Georgia on 26 August 2009 to a "B+" long-term credit rating for both local and foreign currency and a "B" credit rating for short-term foreign currency, with a stable outlook. On 3 March 2011, Fitch revised its outlook from "stable" to "positive". Fitch rated the sovereign bonds due 2021 on their issue date as "B+". On 15 December 2012, Fitch upgraded Georgia's long-term foreign and local currency issuer default ratings from "B+" to 'BB-", with a "stable" outlook on the ratings. Fitch also upgraded the country ceiling ratings to 'BB' and affirmed the short-term foreign currency issuer default ratings at 'B', with a rating on senior unsecured debt upgraded from "B+" to 'BB-'. Moody's Investors Service, Inc. ("**Moody's**") rated the 2021 Sovereign Bonds at Ba3 on their date of issue. On 6 October 2010, Moody's assigned first time Ba3/Not-Prime foreign and local currency issuer ratings to Georgia with a stable outlook.

Fitch, Moody's and Standard & Poor's are all established in the European Union and are registered under Regulation (EC) No. 1060/2009 of the European Parliament and the Council of 16 September 2009 on credit rating agencies.

Several Georgian banks, including the Bank, have been rated by international rating agencies. The Bank, however, is the only commercial bank in Georgia to be rated by three international rating agencies. The Bank has ratings of "B1" and "Ba3" long-term and "Not-Prime" short-term foreign and local currency deposits, respectively, and a "D-" Financial Strength rating from Moody's. Moody's rating outlook for the Bank is stable. The Bank has ratings of "BB-" for foreign and local currency issuer default, "B" for short-term foreign and local currency deposits, viability rating "BB-" and support "4" from Fitch. Fitch's rating outlook for the Bank's issuer default ratings are stable. The Bank has ratings of "BB-" long-term and "B" short-term for counterparty credit from Standard & Poor's. Standard & Poor's rating outlook for the Bank is stable.

Role of the National Bank of Georgia

The NBG is the central bank of Georgia, banking institution and fiscal agent of the Government of Georgia. The main objective of the NBG is to maintain the stability of prices, which implies the existence of a moderate and predictable rate of inflation. The NBG is responsible for ensuring the stability and transparency of the financial system and promoting sustainable economic growth in Georgia. The role and responsibilities of the NBG are set out in the Constitution of Georgia, the NBG Law and other Georgian legislation. In addition, the NBG is expected to be guided by the rules and customs of international banking practice. The NBG is entitled to enter into agreements, acquire, hold and manage property, act as a claimant or defendant in legal proceedings and independently perform its functions.

The NBG is made up of the NBG itself and the Financial Monitoring Service (the "**FMS**"). The FMS is an independent public law entity, which operates as an independent body under the auspices of the NBG. It was created to monitor and supervise anti-money laundering measures and to issue orders setting out further preventative measures and reporting requirements that should be complied with. For further information, see "*Regulation of the Georgian Banking Sector*".

The supreme body of the NBG is its Council, which has seven members. The Council is the supreme authority for the management and supervision of the NBG's activities. Among other things, the Council is responsible for the approval of the main principles of management of the international reserves of Georgia and of the rules of establishing foreign currency exchange rates. The President of the NBG is also Chairman of the Council. In addition to the Chairman, the Council consists of two Vice-Presidents and other members. Members of the Council are elected for a seven-year term by the Parliament based on the nomination of the President of Georgia and are eligible for re-election. A member of the Council can only be removed by a decision of the Parliament by way of impeachment for breaches of the Constitution or the commission of a crime. In the event of impeachment, a new member must be elected to replace the old. The President and Vice-Presidents of the NBG are appointed and dismissed by the President of Georgia.

Under NBG Law, the NBG has the following major functions:

Issuing Money and Regulating its Circulation

The NBG has the exclusive right to issue bank notes and coins in Georgia. The NBG is responsible for the printing of bank notes and the minting of coins, the security and safekeeping of bank notes and coins intended for circulation and the custody and destruction of bank notes and coins withdrawn from circulation.

Monetary Policy

The main direction of the NBG's monetary policy is to attain and maintain the targeted rate of average annual increase of consumer price levels. The NBG implements monetary policy according to the main directions of monetary and foreign exchange policy defined annually by the Parliament.

The NBG is responsible for setting minimum reserve requirements for banks and non-bank depositary institutions and may increase the minimum required amount of reserves as it deems appropriate. The NBG has the power to impose fines on banks and non-bank depositary institutions that fail to maintain the minimum reserves.

In the conduct of its monetary policy, the NBG is permitted to issue debt securities and to purchase and sell such debt securities, as well as those issued by the Georgian government, directly or under repurchase agreements in the open market. It is also authorised to issue loans to commercial banks and non-bank depositary institutions with appropriate security, accept deposits and be a lender of last resort to commercial banks for a period not exceeding three months.

Foreign Exchange and International Reserves

The NBG determines the exchange rate for the Lari against the US dollar according to the average weighted exchange rate calculated on the basis of the inter-bank Spot transactions (including those in which the NBG is involved) registered in the Bloomberg Electronic Trading System within a specified period of time. As to the official exchange rate of the Lari against other foreign currencies, it is determined on the basis of cross-currency calculation of the exchange rates existing in international markets or internal currency markets of the issuer states. The NBG holds and manages official international reserves.

Acting as Banker, Adviser and Fiscal Agent of the Government of Georgia

The NBG advises the President and the Government of Georgia, including the Minister of Finance, on all matters that relate to the activities of the NBG, the main parameters of the annual state budget and amendments to it, including the planning of domestic and external public sector borrowings. It is authorised to act as depository for deposits from the Treasury Service of Georgia and, in such capacity, to receive and disburse monies, maintain accounts and provide related services. The NBG is authorised to act as the fiscal agent of the state agencies in the marketing and administration of debt securities issued by such agencies.

Operation of Clearing and Settlement Facility

The NBG is entitled to establish procedures and issue regulations relating to clearing and non-cash settlement, organise implementation of the payment systems and provide service and administration of such systems to ensure their efficient operation. The NBG has the power to assist banks with organising and supervising payment systems.

Reporting

Not later than 1 October each year, the NBG submits a draft document on the main directions of the monetary and foreign exchange policy for the following three years to the Parliament for approval by the end of that year. If the Parliament fails to approve the draft document on the main directions of the monetary and foreign exchange policy by the end of the respective year, the NBG operates in accordance with its draft proposals. The draft document on the main directions of monetary and foreign exchange policy shall include the targeted level of inflation, the main instruments of monetary policy used to attain the targeted inflation rate and discussion of potential risks.

Within four months following the end of each fiscal year, the NBG submits a report on the implementation of the monetary and foreign exchange policies to the Parliament for its approval.

Supervision of the Financial Sector and AML Measures

The NBG supervises the financial sector, including commercial banks, payment system operators, payment service providers, qualified credit institutions and the securities market and monitors (through the FMS) the measures aimed at preventing the legalisation of illicit income and terrorist financing.

Role of the NBG as the Supervisor of Georgia's Financial Sector

Under NBG Law, the NBG has the following major supervisory functions:

Supervision and Licensing

The NBG is responsible for the supervision of the financial sector of Georgia, which along with the commercial banks includes: non-bank depositary institutions, brokers, securities' registrars, asset management companies, central depository, specialised depository, stock exchange, microfinance organisations, non-state pension scheme founders, reporting companies, payment system operators, payment service providers, qualified credit institutions, currency exchange and money transfer offices. The NBG has the power to issue and revoke licences (if applicable), carry out inspections, impose restrictions and sanctions and place banks and non-bank depository institutions (as well as certain other financial institutions) into temporary administration and/or liquidation.

Regulation of Reporting Rules and Capital Requirements

The NBG sets accounting and reporting rules and procedures for entities subject to its supervision, including commercial banks and non-bank depositary institutions and is entitled to carry out an audit of all of the relevant documents of such institutions and their subsidiaries. The NBG has the power to determine the minimum capital requirements, among others, for banks and non-bank depositary institutions and to obtain information about sources of capital, as well as owners and beneficial owners of significant interests in commercial banks. The NBG issues various regulations related to its supervisory functions.

Reporting

The NBG Council reviews, approves and submits the annual activities report and financial report of the NBG to Parliament.

LENDING POLICIES AND PROCEDURES

The Bank lends to corporate, retail and investment management customers. Loans advanced are typically secured by collateral. The Bank has established procedures for approving loans, monitoring loan quality and for extending, refinancing and/or restructuring existing loans. These procedures are set out in the Bank's credit policies and procedures and other internal documents (the "**Credit Policies**"), which have been approved by the Bank Supervisory Board and/or Bank Management Board, and applies to all loans, including those to related parties. The performance of outstanding loans is subject to monitoring by the Bank's Corporate and Retail Banking front offices, Credit Risk Management and Retail Credit Risk Management departments. At the centre of the Bank's lending and approval process are its Credit Committees. The Credit Committees supervise and manage the Bank's credit risks. In particular, the Credit Committees approve individual transactions and establish credit risk categories and provisioning rates. See "*Risk Management—Risk Management Structure—Risk Management Bodies—Credit Committees*".

Loan Approval Procedures

Corporate Loans

The Bank evaluates corporate banking customers on the basis of their credit history, business operations, market position, management, level of shareholder support, financial position, proposed business and financing plan and on the quality of the collateral offered.

Applications for loans by corporate banking customers are initially submitted to the corporate bankers responsible for the particular customer. The corporate bankers obtain from the applicant the documents necessary to review the loan application, including confirmation of the applicant's legal status, its financial reports, evidence of its management's authority, a description of the proposed collateral (if any), which is valued by the Bank's valuator, supporting documents, a description of its business plan data or of the project to be funded and evidence of its credit history. A corporate banker then performs an on-site assessment of the customer's business operations and prepares a credit memorandum.

The loan application and/or credit memorandum, together with the supporting documentation and collateral evaluation report (if any), are then submitted by the corporate banker to the Credit Risk Management Department for independent appraisal. The Credit Risk Manager carries out an overall appraisal of the applicant's business, assesses its suitability as a customer of the Bank and appraises its business operations or the project to be funded as well as the applicant's creditworthiness. The credit risk manager independently carries out a detailed analysis of the credit memorandum, including, in particular, an evaluation of the applicant's financial position, its business operations or the project to be funded, the sufficiency of the proposed collateral, the applicant's sources of repaying or refinancing the loan and the risk of default. The credit risk manager conducts a detailed review focussing in particular on the possible non-legal risks. Once the credit risk manager's review is complete, the credit risk manager produces a report which is required for the third tier sub-committee and which may be requested by either first or second tier sub-committees. The credit memorandum and, where appropriate, the credit risk manager's report are submitted to the appropriate level of the relevant Credit Committee, depending on the overall exposure. The relevant Credit Committee then makes the final decision, which is signed by all members of that Credit Committee in attendance at the relevant meeting. See, "*Risk Management—Risk Management Structure—Risk management bodies—Credit Committees*".

Retail Loans

The loan approval procedures for retail banking loans depend on the type of retail lending product. Applications for consumer loans, including credit cards, and auto loans are treated under the "scoring" approval procedure. A loan officer conducts an interview with the applicant, completes an application, collects all relevant documentation and submits it to the Retail Credit Risk Management Department, where the application is subject to a scoring system (which includes an assessment of the applicant's credit history, financial position and ability to service the loan). While the loans are automatically approved by using the scoring system, in certain cases (*e.g.*, where the loan amount exceeds GEL 10,000) the appropriate Credit Committee will become involved to determine the amount, terms and conditions of other loans. Applications for mortgage loans by retail banking customers are completed by the mortgage loan officer and submitted to the Credit Risk Manager, who evaluates the credit risks and determines the amount, terms and conditions of the loan, which must be approved at the appropriate Credit

Committee level. In the case of micro-financing loans, officers evaluate loan applications, prepare a project analysis and submit proposals to the appropriate Credit Committee which makes the final decision. Credit Committee members have equal voting authority and decisions are approved by a simple majority of votes.

In 2004, the Bank, jointly with certain other Georgian banks and with Creditinfo Group, a provider of credit information solutions, established Joint Stock Company Credit Information Georgia ("**CIG**") to serve as a centralised credit bureau in Georgia. Most Georgian banks have shared negative customer credit information since July 2006. Since 2009, they also share and contribute positive customer credit information with CIG. There is currently no law on credit reporting in Georgia.

Monitoring

The Bank has procedures requiring regular monitoring of its loans and its loan portfolio pursuant to defined procedures. As well as monitoring the borrower's compliance with its obligations under the relevant loan, the Bank reviews all available information on the borrower's activities, including financial reports. In relation to its loan portfolio, the Bank also monitors the level of past due loans and the concentration and volume of loans to any particular borrower, group of borrowers or industry sector.

In the event that a payment is not made when due, the borrower is contacted by one of the Bank's officers and employees to ascertain the reason for non-payment. The Bank revises the risk associated with the borrower and adjusts its provisioning accordingly. Default interest accrues until payment is made. If payment is not made within a prescribed period, the loan is assigned to the Asset Recovery Department and/or the Legal Department for legal proceedings. Certain unsecured consumer loans are outsourced to third party collection companies.

Collateral

The Bank typically requires credit support or collateral as security for the loans and credit facilities that it grants. The main forms of credit support are guarantees and rights to claim amounts on the borrower's current account with the Bank or other assets. The main forms of collateral for corporate lending are charges over real estate properties, equipment, inventory and trade receivables and the main form of collateral for retail lending is a mortgage over residential property. In the case of corporate loans, the Bank usually requires a personal guarantee (surety) from the borrower's shareholders. Under the Bank's internal guidelines, collateral should be provided (where it is required) to cover outstanding liabilities during the entire duration of a transaction. As of 31 December 2012, 84.9% of the Group's loans to customers were collateralised (including guarantees). An evaluation report of the proposed collateral is prepared by the Asset Appraisal and Disposal Department and submitted to the appropriate Credit Committee, together with the loan application and credit risk manager's report. When evaluating collateral, the Bank discounts the market value of the assets to reflect the liquidation value of the collateral.

Under Georgian law, enforcement of security requires state registration or perfection through registration, through possession or by means of creating a financial collateral as defined in the Payment Systems Law. The Legal Department is responsible for registering the collateral taken by the Bank, monitored by the credit administration and documentation unit. Although, to the extent practical, the Group seeks to register all of its security interests in loan collateral as a matter of policy, if the Group fails to register any of its security interests in loan collateral, or fails to do so properly, this may result in its security being invalid or it facing unexpected or conflicting claims of other secured creditors. However, charges over moveable property may be impracticable to register due to the incapability of the chargee to restrict the subsequent sale of such moveable property. In addition, the statutory priority of claims against an obligor in Georgia will affect the amount the Bank will be able to realise pursuant to any claim it makes as a secured creditor.

The Bank's requirements with regard to liquidity and price volatility of collateral depend on its evaluation of the borrower and the loan transaction. The frequency of a collateral review depends on the type of collateral taken. In normal circumstances, collateral is generally expected to be realised within a maximum period of six months after the repossession of the collateral. Due to recent amendments to legislation regarding the enforcement of collateral, in practice, the period for the enforcement of collateral has been substantially shortened (to up to four months), especially on auto and mortgage loans. However in certain cases court decisions may take longer.

Recently, certain controversial amendments have been initiated in the Parliament which amend foreclosure mechanisms and impose moratoriums on foreclosures. According to the legislative amendments, enforcement of foreclosures and eviction of borrowers who have defaulted on mortgage loans should be suspended until 1 February 2014. However, to date none of these amendments have been passed into law, and the Government and members of Parliament have indicated that, if any law is adopted, it should not restrict enforcement actions with respect to collateral pledged in favour of commercial banks and microfinance organisations. There is no assurance, however, that if such laws are adopted, they would not affect enforcement actions by banks and microfinance organisations, or that the Parliament would not, in the future, enact laws or regulations that may restrict the ability of the Group to enforce security granted by its customers, or otherwise impair the value of such collateral. If such laws are adopted, they may result in illiquidity of the collateral, increase of credit risk and emergence of the bad loans, and may have negative effects on the economy and the Georgian banking sector, including the Bank.

In addition, on 28 June 2013, legislative amendments were adopted to impose a moratorium on foreign ownership of agricultural land (including ownership by foreign nationals, foreign entities and local entities with foreign ownership) until 31 December 2014. Although the moratorium does not apply to agricultural land owned by foreign nationals, foreign entities and Georgian companies with foreign ownership immediately prior to the legislative amendments, the law suggests that future disposals of such properties by their current owners to foreign nationals or foreign entities and Georgian companies with foreign ownership would not be permitted. In addition, the National Agency of Public Registry may refuse to register any sale of shares in Georgian companies owning agricultural land if the prospective purchaser of such shares is a foreign national. The legislative amendments have been criticized by the business sector, as well as by certain Government officials, including the Prime Minister, and the moratorium may be lifted. However, there is no assurance that the moratorium will be cancelled prior to 31 December 2014 or that the deadline will not be extended. The legislative amendments may result in the inability of the Bank to foreclose on collateral where agricultural land or shares of a company owning agricultural land are used as security for a loan with the Bank. Furthermore, such legislative changes may decrease the inflow of foreign investments in Georgia, which could have a negative effect on the economy, which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations. See "*Risk Factors—Risks relating to the Group's Lending Activities—Collateral values may decline*".

The following table sets out the Group's total loans to customers (gross of allowance for impairment losses) which are collateralised and unsecured, indicating the type of collateral where appropriate, as of the dates indicated.

	As of 30 June		**As of 31 December**			
	2013		**2012**		**2011**	**2010**
				(unaudited)		
	(thousands of US dollars)[1]	*(thousands of Lari)*	*(thousands of US dollars)*[2]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Loans secured by pledge of real estate	939,528	1,551,161	876,444	1,452,267	1,341,620	1,260,638
Loans secured by corporate guarantees	159,945	264,069	173,442	287,393	327,449	446,961
Loans secured by pledge of deposits & securities	135,253	223,302	122,596	203,141	87,680	85,790
Loans secured by pledge of gold	45,247	74,703	46,374	76,841	79,774	65,885
Loans collateralised by pledge of transport	79,669	131,533	85,629	141,887	61,916	46,625
Loans collateralised by pledge of inventory	45,725	75,492	21,444	35,533	35,312	41,739
Other collateralised loans[3]	249,481	411,893	285,762	473,508	331,502	319,564
Unsecured loans	298,460	492,757	285,535	473,134	402,886	260,031
Total loans to customers, gross	**1,953,308**	**3,224,910**	**1,897,226**	**3,143,704**	**2,668,139**	**2,527,233**

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

(3) Other collateralised loans comprise loans to customers collateralised by machinery, equipment and other types of collateral, or by multiple types of (mixed) collateral, excluding real estate.

Assessments of Provisions for Loan Impairment

The Bank establishes provisions for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The Bank creates provisions by reference to the particular borrower's financial position and the number of days the relevant loan is overdue. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by an adjusted provision account. The determination of provisions for impairment losses is based on an analysis of the assets at risk and reflects the amount which, in the judgment of the Bank's management, is adequate to provide for losses incurred. Provisions are made as a result of individual or collective appraisal(s) of the financial assets. Provisions are made against gross loan amounts.

The change in impairment of interest-earning assets is reflected in the profit and loss account and the total impairment of interest-earning assets is recognised through the use of an allowance account, which is deducted in arriving at net balances, as shown in the balance sheet. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in impairment for similar financial assets, national economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

Estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain impairment losses that are substantial relative to the allowances, it is the judgment of the Bank's management that the allowance account for interest-earning assets is adequate to absorb losses incurred on the assets at risk. The Bank monitors its loan portfolio on a monthly basis to determine whether estimates of losses should be increased or decreased.

Under the Bank's internal loan loss allowance methodology, which is based upon IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. Significant loans are defined as loans of GEL 600,000 or more and non-significant loans are defined as loans of less than GEL 600,000. All significant loans are classified according to individual credit and provisioning ratings. Non-significant loans that are overdue by more than 30 days are provisioned individually according to the overdue days. All non-impaired, non-significant loans as well as non-impaired significant loans, are assessed collectively within the sub-loan portfolio categories based upon historical loss rates.

In 2008, the Bank made changes to the internal loan loss allowance methodology in order to comply with new IFRS requirements. The Bank began to use a new factor calculation for loss-possible reserves, utilising the discounted value of collateral. Beginning in December 2008, this factor applied only to the significant corporate and SME loans with provision rates of 30% and more and, since June 2009, it has also applied to mortgage loans with provision rates of 30% or more where such loans are in an amount of GEL 50,000 or more and corporate and SME loans with provision rates of 30% or more where such loans are in an amount of GEL 500,000 or more. The Bank calculates the discounted value of particular collateral and subtracts it from the provision amount of the loan.

As of 31 December 2012, the Group's allowance for loan impairment under IFRS was 3.5% of its gross loans, as compared to 4.3% and 6.9% as of 31 December 2011 and 2010, respectively. As of the same date, BNB's allowance for loan impairment under IFRS was 2.0% of its gross loans (as compared to 2.0% and 0.9% as of 31 December 2011 and 2010, respectively) and no allowance for loan impairment under IFRS was applicable to BG Bank as of 31 December 2012 and 2011, and accounted for 27.7% of its gross loans of 31 December 2010. As of 30 June 2013, the Group's allowance for loan impairment was 3.6% of its gross loans. BNB's allowance for loan impairment under IFRS was 2.2% of its gross loans as of 30 June 2013.

Loan Restructuring Policy

In response to the changed credit risk environment following the 2008 Conflict and the onset of the global financial crisis in 2008, the Bank established a Corporate Recovery Department, Micro & SME Loan Recovery Unit and retail loan restructuring group in respect of the Bank's operations in Georgia. In addition, the Bank developed and implemented a loan restructuring policy for retail banking, an important tool for enhanced credit portfolio management. The Bank makes an assessment as to whether overdue corporate loans should be restructured or court proceedings initiated on a case-by-case basis.

According to the Bank's loan restructuring policy, Renegotiated Loans are loans that would otherwise be overdue or impaired and whose terms (including as to principal and interest payment) have been renegotiated due to the borrower's existing or possible inability to pay. The Group's ratio of Renegotiated Loans to total gross loans was 2.4% as of 30 June 2013 and 3.1% as of 31 December 2012, as compared to 4.5% and 10.9% as of 31 December 2011 and 2010, respectively. The Bank considers a loan to be "at risk" when payment is overdue for 30 days or following a critical event, such as the declaration of bankruptcy. The Bank also evaluates the underlying reasons for default in order to mitigate the risk of future loans from becoming at risk loans. In certain circumstances, the Bank then contacts the borrower to discuss the options for restructuring the loan, by rescheduling interest payments and extending the term of the loan in order to restore the borrower's ability to service or repay the loan, or by trying to obtain additional collateral. The borrower will be liable to pay a penalty at a daily rate of 0.5% for retail and wealth management loans and double the annual interest rate for corporate loans on the total overdue amount, which includes the principal and interest accrued in respect of each day the relevant loan payment is overdue. According to the Bank's policy, if the loan is restructured, 50% (the minimum afforded in all cases), 70% (in cases where the loan is secured by real estate) or 90% (in cases where the borrower is willing to pay the total outstanding amount of principal and interest due in respect of the loan) of the penalties that the borrower has accrued for late payment may be waived by the Bank. According to the Bank's policy, typically, if a residential mortgage is restructured, the existing rate of interest will be increased by 2 percentage points (if the principal amount outstanding is below US$10,000), 1 percentage point (if the principal amount outstanding is between US$10,000 and US$100,000) or 0.5 percentage points (if the principal amount outstanding is above US$100,000). The term of a restructured residential mortgage can be increased to a maximum of 120 months and, depending on the borrower's circumstances, a borrower may be granted a maximum grace period of between three and nine months. Once a loan has been restructured, the Bank closely monitors the borrower's compliance with the terms of the Renegotiated Loan.

Loans Past Due More Than 90 days and Write-offs

The Group's total loans past due more than 90 days to total gross loans ratio decreased from 4.7% to 3.3% to 2.6% as of 31 December 2010, 2011 and 2012 respectively. As of 30 June 2013, total loans past due more than 90 days to total gross loans ratio was 3.9%.

Under the Bank's internal loan loss allowance methodology, which is based upon IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. See "— *Assessments of Provisions for Loan Impairment*" above. Non-significant loans which are overdue for more than 150 days are written off automatically, except for mortgage loans which, since June 2009, are written off once overdue for more than 360 days. Significant loans may be written-off following an assessment by the Deputy CEO, Chief Risk Officer and the Credit Risk Management Department, in consultation with the Bank's CEO and Deputy CEO, Finance. The Bank writes-off the gross amount of the loan irrespective of the value of the collateral.

RISK MANAGEMENT

Overview

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent in the Bank's operations are liquidity risk, market risk (including currency exchange rate risk and interest rate risk), credit risk, operational risk and legal risk. The following is a description of the Bank's risk management policies and procedures in respect of those risks.

The main tools of risk management of the Bank are the establishment of specific procedures with respect to operations involving certain types of risks as well as the placement of various authority limits on certain operations. The Bank seeks to manage its overall risk exposure by continuously improving its risk management policies and systems. The Bank's risk management procedures are designed to identify and analyse relevant risks to its business, prescribe appropriate limits to various risk areas and to monitor the level and incidence of such risks on an on-going basis. The Bank regularly reviews its risk analysis processes in order to institute improvements which are required in light of the development and growth of its business and the varying nature of the risks which the Bank faces in its day-to-day business.

The Bank's risk management system is based on the principle of continually assessing risk throughout the life of any operation and includes such stages as:

- risk identification;
- quality and quantity assessment of a particular risk;
- determination of an acceptable risk level;
- placement of limits and creation of reserves;
- use of collateral;
- ongoing monitoring and control allowing efficient adjustments in case of any negative changes in the conditions on which the preliminary risk assessment was made; and
- analysis of efficiency of the risk management system.

Risk Management Structure

The Bank conducts its risk management activities within the framework of its unified risk management system.

Risk Management Bodies

Responsibility for the conduct of the Bank's risk management activities is divided among the Bank's principal risk management bodies, which are the Bank Supervisory Board, the Bank's Audit Committee, the Bank Management Board, the Bank Internal Audit Department, Treasury, the Credit Committees, the Asset and Liability Management Committee (the "**ALCO**") and the Bank's Legal Department.

Bank Supervisory Board. The Bank Supervisory Board is responsible for the Bank's overall risk management approach and for approving risk strategies and principals and is ultimately responsible for identifying and controlling risks. It approves the Bank's Credit Policies, which outline credit risk control and monitoring procedures and the Bank's credit risk management systems and approves certain decisions which fall outside the scope of the respective authorities of the Credit Committees (including approvals of single borrower lending exposure exceeding US$25.0 million). The Bank Management Board presents a comprehensive credit risk report and market risk report to the Bank Supervisory Board for their review on a quarterly basis.

Bank Audit Committee. The Bank Audit Committee has overall responsibility for implementing principles, frameworks, policies and limits in accordance with the Bank's risk management strategy. It is responsible for fundamental risk issues and manages and monitors compliance of relevant risk management decisions with the Bank's risk management policy. The Bank Audit Committee facilitates the activities of the internal audit and external auditors of the Bank. The Bank Internal Audit Department also reviews AML policies and procedures and presents audit reports on AML to the Bank Audit Committee on a quarterly basis. The Bank Audit Committee is elected by the Bank Supervisory Board.

Bank Management Board. The Bank Management Board has overall responsibility for the Bank's asset, liability and risk management activities, policies and procedures. In order to effectively implement the risk management system, the Bank Management Board delegates individual risk management functions to each of the various decision-making and execution bodies within the Bank.

Bank Internal Audit Department. The Bank Internal Audit Department is responsible for the annual audit of the Bank's risk management processes. It examines both the adequacy of and the Bank's compliance with those procedures. The Bank Internal Audit Department discusses the results of all assessments with management, and reports its findings and recommendations to the Bank Audit Committee and the Supervisory Board.

Treasury. Treasury is responsible for managing the Bank's assets and liabilities and its overall financial structure and is also primarily responsible for managing funding and liquidity risks of the Bank.

Credit Committees. The Bank has two credit committees (together, the "**Credit Committees**"), one which supervises and manages the Bank's credit risks in respect of retail and wealth management loans and one which supervises and manages the Bank's credit risks in respect of corporate loans. Each Credit Committee approves individual loan transactions and establishes credit risk categories and provisioning rates on such transactions. The Deputy Chief Executive Officer (Chief Risk Officer) and the Credit Risk Management Department review the credit quality of the loan portfolio, set provisioning rates and, in consultation with the Bank's CEO and Deputy CEO (Finance), adopt decisions on the acceleration and write-off, on a monthly basis, of corporate loans past due for more than 90 days.

Each Credit Committee is comprised of tiers of subcommittees. The Credit Committee for retail loans comprises four tiers of subcommittee. (For risk management purposes, investment management loans are classified as retail loans.) The Credit Committee for corporate loans comprises three tiers of subcommittee. Each first tier subcommittee is chaired by the Risk Manager of the relevant Credit Risk Management Department and approves loans resulting in the Bank's overall exposure of up to US$500,000 for corporate loans and up to US$150,000 for retail loans. Each second tier subcommittee is chaired by the Head of the Credit Risk Analysis Unit for corporate and by Deputy Head of Credit Risk Management Department for retail loans and approves loans resulting in the Bank's overall exposure in the range of US$500,000 to US$1.5 million for corporate loans and US$150,000 to US$300,000 for retail loans. The third tier subcommittee for corporate loans is chaired by the CEO (and, in his absence, the Deputy CEO (Chief Risk Officer)) and approves loans resulting in the Bank's overall exposure exceeding US$1.5 million. The third tier subcommittee for retail loans is chaired by the Director of the Credit Risk Management Department and approves loans of up to US$2.0 million. The fourth tier subcommittee for retail loans is chaired by the CEO (and, in his absence, the Deputy CEO (Chief Risk Officer)) and approves loans resulting in the Bank's single borrower lending exposure exceeding US$2.0 million. All exposures to single group borrowers over US$25.0 million require approval by the Bank Supervisory Board. The third and fourth tier subcommittees of the Credit Committee for retail loans meet three times per week and the first and second tier subcommittees of each of the Credit Committees meet on an as-needed basis, typically two to three times per week. Each of the subcommittees of the Credit Committees makes its decisions by a majority vote of its respective members.

Decisions on micro loans under US$100,000 are made at the branch level pursuant to joint approval by the Director of the Micro and SME Lending Department or group leader. The originator of the loan does not participate in the approval of the loan.

The Credit Committee for Micro and SME loans comprises three tiers of subcommittees, and falls under the Credit Committee for retail loans. The first tier Micro and SME Credit Committee is chaired by the head of the group of the Micro and SME Lending Department and approves loans resulting in the Bank's overall exposure to a borrower of up to US$15,000. The second tier Micro and SME Credit Committee is chaired by the head of the Micro and SME Department and approves loans resulting in the Bank's overall exposure to a borrower up to US$100,000. The third tier Micro and SME Credit Committee approves loans resulting in the Bank's overall exposure to a borrower in the range of US$100,000 to US$1,200,000. The committee is chaired by the Risk Manager, with mandatory participation from either the Head of the Credit Risk Analysis Unit or the Head of the Credit Risk Management Department (or his or her deputy) for exposures exceeding US$500,000.

Recovery Committees. The Problem Loan Recovery Committee is chaired by one of the following: (1) the heads of the Problem Loan Management Department; (2) the heads of the Risk departments, of which there are two; (3) the Deputy CEO (Chief Risk Officer); or (4) the Chief Executive Officer, depending on the level of exposure. The Problem Loan Recovery Department manages the Bank's exposures to problem loans and reports to the Deputy CEO (Chief Legal Officer). The Deputy CEO (Chief Risk Officer) also chairs the committee which oversees loans which are the subject of litigation.

The Corporate Recovery Committee is chaired by the Deputy CEO (Chief Risk Officer) and is responsible for monitoring all of the Bank's exposures to loans that are being managed by the Corporate Recovery Department. The Corporate Recovery Department reports to the Deputy CEO (Corporate Banking).

Asset and Liability Management Committee (ALCO). The ALCO establishes the Bank's policy with respect to capital adequacy, market limits, medium and long-term liquidity risk and interest rates. Specifically, the ALCO sets inter-bank lending limits as well as open currency position limits with respect to both overnight and intra-day positions and stop loss limits; monitors compliance with established value at risk ("**VAR**") limits on possible losses as a secondary measure; and sets ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities. Compliance with the Bank's interest rate policy is monitored by the head of the Financial Risk Management Unit of the Finance Department and the Treasury.

The ALCO is chaired by the CEO and meets at any time deemed necessary, but at least monthly, with decisions made by a majority vote of its members. The decision making process is automated through the online platform M-Files, where decisions are automated or made by members electronically. ALCO members include the CEO, Deputy CEO (Finance), Deputy CEO (Chief Risk Officer), Deputy CEO (Corporate Banking) Deputy CEO (Retail Banking), Deputy CEO (Investment Management), Head of Finance Department, Head of the Treasury and Head of IR and Funding. Head of Financial Risk Management Unit of the Finance Department acts as ALCO secretary. The ALCO reviews financial reports and indices including the Bank's ALM limits/ratios, balance sheet, statement of operations, liquidity gap, interest rate gap, cash flow analyses for the past three months and future projections, deposit concentration and other financial and growth projections on a monthly basis.

Legal Department. The Legal Department's principal purposes are to ensure that the Bank's activities conform to applicable legislation and to minimise losses from the materialisation of legal risks. The Legal Department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner, the investigation of the Bank's activities in order to identify any legal risks, the planning and implementation of all necessary actions for the elimination of identified legal risks, participation in legal proceedings on behalf of the Bank where necessary and the investigation of possibilities for increasing the effectiveness of the Bank's legal documentation and its implementation in the Bank's daily activities. The Legal Department is also responsible for providing legal support to structural units of the Bank.

Implementation

The Bank's risk management system is implemented by the Finance Department and the Treasury, Credit Risk Management, Operational Risk Management and Control, Legal, AML Compliance and Security departments and other departments. The Reporting and Analysis Unit and the Financial Risk Management Unit of the Finance Department report to the Head of the Finance Department. The Finance Department and the Treasury Department report to the Deputy CEO (Finance). The Credit Risk Management (CB Portfolio Analysis) and Operational Risk Management and Control departments report to the Deputy CEO (Chief Risk Officer) and the Credit Risk Management (Retail Banking Portfolio Analysis) department reports to the Deputy CEO (Retail Banking). The Legal and AML Compliance departments report to the Deputy CEO (Legal).

The Financial Risk Management Unit of the Finance Department, in coordination with the Treasury, implements the Bank's market risk policies by ensuring compliance with established open currency position limits, counterparty limits, VAR limits on possible losses and the interest rate policy set by the ALCO.

The Treasury Department manages foreign currency exchange, money market, securities portfolio and derivatives operations and monitors compliance with the limits set by the ALCO for these operations. The Treasury Department is also responsible for management of short-term liquidity and treasury cash flow and monitors the volumes of cash in the Bank's ATMs and at its service centres.

The Credit Risk Management Department manages credit risks with respect to particular borrowers and assesses overall loan portfolio risks. It is responsible for ensuring compliance with the Bank's Credit Policies, management of the quality of the Bank's loan portfolio and filing and loan administration.

The Operational Risk Management and Control Department is responsible for identification and assessment of operational risk categories within the Bank's processes and operations. It is also responsible for detecting critical risk areas or groups of operations with an increased risk level and developing internal control procedures to address these risks, through (among other things) business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibility.

The Legal Department monitors all changes in relevant laws and regulations, and ensures that those changes are properly reflected in the Bank's procedures, instructions, manuals, templates and other relevant documentation. It also disseminates information on legislative changes to all relevant departments within the Bank. The Legal Department also participates in drafting laws and regulatory documents upon request of legislators and regulators, certain associations and other professional bodies.

The Tax Compliance Unit of the Finance Department focuses on the Bank's relationship with the tax authorities and provides practical advice and monitors tax compliance across the Group.

Each of the foregoing departments is provided with policies and/or manuals that are approved by the Bank Management Board and/or the Bank Supervisory Board (as required). The manuals and policies include comprehensive guidance for each stage of a transaction, including, but not limited to, manuals outlining asset and liability management policies, foreign exchange operations procedures, fixed income investment guidelines, retail banking operations procedures, the deposit policy and the Credit Policies.

Risk Measurement and Reporting

The Bank measures risk using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. These models use probabilities derived from historical experience, adjusted from time to time to reflect the economic environment. The Bank also runs worst case scenarios that could arise in the event that extreme events, however unlikely, do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. The Bank also conducts ongoing monitoring and control allowing efficient adjustments in case of any unexpected changes in the conditions on which the preliminary risk assessment was made. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The Bank maintains a management reporting system which requires the Credit Risk Management, Finance and Funding departments to prepare certain reports on a daily and monthly basis. On a daily basis, a statement of operations, balance sheet and treasury report (which includes the Bank's open foreign exchange positions, cash flows, limits and balances on NOSTRO and LORO correspondent accounts) and confirmation that there has been compliance with mandatory financial ratios must be provided by each department. On a monthly basis, a report on the structural liquidity gap, a report on interest rate risk, monthly financial statements, and a Bank Supervisory Board quarterly report containing analysis of the Bank's performance against its budget are provided.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Bank Management Board, and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Bank Management Board and Bank Supervisory Board receive a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and draw conclusions on the Bank's risk exposure.

Specifically tailored risk reports are prepared and distributed for all levels throughout the Bank in order to ensure that all business divisions have access to extensive, relevant and up-to-date information. A daily briefing is given to the Bank Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk Mitigation and Excessive Risk Concentration

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forward transactions. While these derivatives are intended for hedging, they do not qualify for hedge accounting.

The Bank actively uses collateral to reduce its credit risks.

Concentrations arise when a number of counterparties, or related shareholders, are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentrations of risks, the Bank focuses on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. See "—*Credit Risk*" below.

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk is managed through the ALCO-approved liquidity framework. Treasury manages liquidity on a daily basis. In order to manage liquidity risk, it performs daily monitoring of future expected cash flows on customers' and banking operations, which is a part of the assets/liabilities management process. The Finance Department prepares and submits monthly reports to the ALCO. The ALCO monitors the proportion of maturing funds available to meet deposit withdrawals and the amounts of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk management framework models the ability of the Bank to meet its payment obligations under both normal conditions and during a crisis situation. The Bank has developed a model based on the Basel III liquidity guidelines. This approach is designed to ensure that the funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The liquidity management framework is reviewed from time to time to ensure it is appropriate to the Bank's current and planned activities. Such review encompasses the funding scenarios modelled, the modelling approach, wholesale funding capacity, limit determination and minimum holdings of liquid assets. The liquidity framework is reviewed by the ALCO prior to approval by the Bank Management Board.

The Finance Department also undertakes an annual funding review that outlines the current funding strategy for the coming year. This review encompasses trends in global debt markets, funding alternatives, peer analysis, estimation of the Bank's upcoming funding requirements, estimated market funding capacity and a funding risk analysis. The annual funding plan is reviewed by the Bank Management Board and approved by the Bank Supervisory Board as part of the annual budget. The Funding and Treasury departments also review, from time to time, different funding options and assess the refinancing risks of such options.

The Bank's capability to discharge its liabilities is dependent on its ability to realise an equivalent amount of assets within the same period of time. The Bank maintains a portfolio of highly marketable and diverse assets that it believes can be easily liquidated in the event of an unforeseen interruption of cash flow. It also has committed lines of credit that it can access to meet its liquidity needs. Such lines of credit are available through the NBG's refinancing facility. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted. As of 31 December 2012, in line with the NBG's requirements, 15% of customer deposits in foreign currencies were set aside as minimum reserves. In addition, the Bank maintains a minimum average balance of 10% of its customers' deposits in Georgian Lari at its correspondent account at the NBG. For wholesale funding, the NBG requires the Bank to set aside 15% of its unsubordinated foreign currency wholesale funding for borrowings with a remaining maturity of less than one year, 5% for borrowings with a remaining maturity of one to two years and 10% of its unsubordinated Georgian Lari wholesale funding for borrowings with a remaining maturity of less than one year.

In the Georgian marketplace, the majority of working capital loans are short-term and granted with the expectation of renewal at maturity. As such, the ultimate maturity of assets may be different from the analysis presented elsewhere. In addition, the maturity gap analysis does not reflect the historical stability of current accounts.

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

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

As of 31 December 2012, the Group's total consolidated amounts due to customers was GEL 2,693.0 million (US$1,625.2 million) (as compared to GEL 2,735.2 million and GEL 2,026.3 million as of 31 December 2011 and 2010, respectively) and represented 58.6% (as compared to 71.0% and 61.2% as of 31 December 2011 and 2010, respectively) of the Group's total liabilities. Included in amounts due to customers are term deposits of individuals. In accordance with Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. In case of early withdrawal, the interest on deposit is foregone or reduced. As of 30 June 2013, the Group's total consolidated amounts due to customers of GEL 2,852.8 million (US$1,727.9 million) represented 62.3% of the Group's total liabilities.

As of 31 December 2012, total amounts due to credit institutions were GEL 1,657.2 million (US$1,000.1 million) (as compared to GEL 921.2 million and GEL 1,138.9 million as of 31 December 2011 and 2010, respectively) and represented 36.0% (as compared to 23.9% and 34.4% as of 31 December 2011 and 2010, respectively) of the Group's total liabilities. Amounts due to credit institutions are taken from a wide range of counterparties. As of 30 June 2013, total amounts due to credit institutions of the Group were GEL 1,475.7 million (US$893.8 million), representing 32.2% of the Group's total liabilities.

The Bank Management Board believes that each of the Group's and the Bank's liquidity is sufficient to meet each of their present requirements.

Market Risk

The Bank is exposed to market risk (including currency exchange rate risk and interest rate risk), which is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk exposure arises from open positions in fixed income and currencies, all of which are exposed to market fluctuations. The general principles of the Bank's market risk management policy are set by the ALCO. The Bank aims to limit and reduce the amount of possible losses on open market positions which may be incurred by the Bank due to negative changes in currency exchange rates and interest rates. The Bank classifies exposures to market risk into either trading or non-trading positions. Trading and non-trading positions are managed and monitored using other sensitivity analyses. In order to address these risks, the ALCO specifically establishes VAR limits on possible losses for each type of operation (currently the VAR limit is set for foreign currency exchange operations only) and the Finance and Treasury departments monitor compliance with such limits.

Currency Exchange Rate Risk. Currency exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position. The Bank's currency risk is calculated as an aggregate of open positions and is controlled by setting a VAR calculation (established by the ALCO) with respect to the Bank's currency basket. The Bank uses the historical simulation method based on 400 business day statistical data. Its open currency positions are managed by the Treasury Department and Finance Department on a day-to-day basis and are monitored by the Head of Treasury on a real-time basis. The ALCO sets open currency position limits with respect to both overnight and intraday positions and stop-loss limits. Currently, the Bank's proprietary trading position is limited by the ALCO to a maximum of 15.0% of the Bank's NBG total regulatory capital. The open currency position is also limited by ALCO to a VAR of 7 basis points of its NBG regulatory capital for a one-day trading period with a 95.0% "tolerance threshold". The 15% ALCO limit is more conservative than NBG's requirements, which allows banks to keep open positions of up to 20.0% of regulatory capital. The Bank additionally limits open foreign currency positions other than US dollars and Lari to 1% of the regulatory capital. The Bank also applies sensitivity stress tests to its open currency positions to estimate potential negative impact on its net assets and earnings.

Interest Rate Risk. The Bank has exposure to interest rate risk as a result of lending at fixed interest rates in amounts and for periods which differ from those of term borrowings at fixed and floating interest rates. Interest margins on assets and liabilities having different maturities may increase or decrease as a result of changes in market interest rates.

Similarly to other Georgian banks, the majority of the Bank's assets and deposits have fixed interest rates. In order to minimise interest rate risk, the Bank monitors its interest rate (repricing) gap and maintains an interest rate margin (net interest income before impairment of interest-earning assets divided by average interest-earning assets) sufficient to cover operational expenses and risk premium. Within limits approved by the Bank Supervisory Board, the ALCO approves ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities. Compliance with the Bank's interest rate policy is monitored by the Head of the Financial Risk Management Unit of the Finance Department and the Head of Treasury.

As of 31 December 2012, the Group's floating rate borrowings accounted for 9.9% of the Group's total liabilities. In May 2009, the Bank entered into an ISDA Master Agreement with IFC, pursuant to which from time to time the Bank enters into interest rate swaps with IFC to hedge its US dollar interest rate risk on its outstanding long-term borrowings. As of 30 June 2013, the Group's floating rate borrowings accounted for 9.6% of the Group's total liabilities.

The Bank is also subject to prepayment risk, which is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall. The Group reviews the prior history of early repayments by calculating the weighted average effective rate of early repayments across each credit product, individually, applying these historical rates to the outstanding carrying amount of each loan product as of the reporting date and then multiplying the product by the weighted average effective annual interest rates for each product. This allows the Bank to calculate the expected amount of unforeseen losses in the case of early repayments.

Credit Risk

The Bank is exposed to credit risk, which is the risk that a borrower or counterparty will be unable to pay amounts in full or in part when due. Credit risk arises mainly in the context of the Bank's lending activities. The general principles of the Bank's credit policy are outlined in the Credit Policies. The Credit Policies also outline credit risk control and monitoring procedures and the Bank's credit risk management systems. The Credit Policies are reviewed annually or more frequently if necessary. As a result of these reviews, new procedures addressing the standards and methodology for loan loss provisioning pursuant to IFRS requirements were implemented, new loan restructuring tools were introduced and the loan terms were tightened. The Bank also uses the NBG's provisioning methodology in order to comply with NBG requirements.

The Bank manages its credit risk by placing limits on the amount of risk accepted with respect to individual corporate borrowers or groups of related borrowers, liability of insurance companies, types of banking operations and by complying with the exposure limits established by the NBG. The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for the loan impairment. The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements. The exposure to individual corporate borrowers (including financial institutions) is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits with respect to trading terms such as foreign exchange contracts.

The Credit Committees approve individual transactions and establish their credit risk categories and provisioning rates. The Deputy CEO (Chief Risk Officer) and Credit Risk Management Department reviews the credit quality of the portfolio and sets provisioning rates, in consultation with the Bank's CEO and Deputy CEO (Finance), on a monthly basis. See "—*Risk Management Structure—Risk Management Bodies—Credit Committees*".

The Bank's credit quality review process provides early identification of possible changes in the creditworthiness of counterparties, including regulator collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position.

The Group makes available to its customers guarantees/letters of credit which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee/letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The Bank's compliance with credit risk exposure limits is monitored by the Credit Risk Management Department on a continuous basis. Exposure and limits are subject to annual or more frequent review. The Bank establishes provisions for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The Bank creates provisions by reference to the particular borrower's financial position and the number of days the relevant loan is overdue. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by an adjusted provision account. The determination of provisions for impairment losses is based on an analysis of the assets at risk and reflects the amount which, in the judgment of the Bank's management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of financial assets. Provisions are made against gross loan amounts and accrued interest.

Under the Bank's internal loan loss allowance methodology, which is based upon IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. Significant loans are defined as loans in the amount of GEL 600,000 or more and non-significant loans are defined as loans less than GEL 600,000. The Credit Risk Management Department makes an individual assessment of significant loans and loans with category A rating are given a collective assessment rate. All significant loans other than category A are provisioned individually depending on the category they fall in. Categories are determined according to borrower's financial performance, business performance, leverage, credit history, quality of management and shareholders' support. In addition, the loan to collateral ratio and quality of collateral may affect the provisioning rates of individually assessed loans. All non-significant loans are divided into different groups (*e.g.*, mortgage, consumer, and micro-financing loans). All non-significant loans that are overdue more than 30 days are provisioned individually mainly based on the overdue days. All non-impaired non-significant loans, as well as non-impaired prime rated significant loans, are assessed collectively within the sub-loan portfolio categories based upon historical loss rates. Non-significant loans which are overdue for more than 150 days are written off automatically, except for mortgage loans which, since June 2009, are written off once overdue for more than 365 days. Significant loans may be written-off following an assessment by the Deputy CEO, Chief Risk Officer and the Credit Risk Management Department, in consultation with the Bank's CEO and Deputy CEO, Finance.

The following table sets out the Bank's provisioning methodology for significant loans, which is in line with IFRS requirements:

Loan Category	**Internal Provisioning Range** *(%)*
A	collective assessment rate
B	10-30%
C	30-50%
D	50-100%
E	100%

Management believes the Bank's loan portfolio is conservatively provisioned. The gross outstanding amortised cost of individually impaired loans of the Group as of 31 December 2012, 2011 and 2010 comprised GEL 192.3 million (US$116.0 million), GEL 248.4 million, and GEL 276.4 million, respectively. For further information on the assessment of individually impaired loans, see Note 31 (*Risk Management*) of the Audited Financial Statements as of and for the year ended 31 December 2012. See "*Selected Statistical and Other Information—Loan Portfolio—Loans by Amounts and Number of Borrowers*" for a list of the Group's ten largest borrowers by industry as of 31 December 2012.

The following table provides information on the Group's non-performing loans:

	30 June 2013		**As of 31 December**			
			2012		**2011**	**2010**
			(unaudited)			
	(thousands of Lari)	*(thousands of US dollars)*[(2)]	*(thousands of Lari)*	*(thousands of US dollars)*[(1)]	*(thousands of Lari)*	*(thousands of Lari)*
Loans past due more than 90 days	124,653	75,502	82,524	49,803	87,836	117,580
Other non-performing loans	7,154	4,333	43,439	26,216	12,506	–
Total non-performing loans	131,807	79,835	125,963	76,019	100,342	117,580

Notes:

(1) Converted into US dollars for convenience using an exchange rate of GEL 1.657 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 31 December 2012.

(2) Converted into US dollars for convenience using an exchange rate of GEL 1.651 per US$1.00, being the official Lari to US dollar exchange rate reported by the NBG on 30 June 2013.

For further information on the Group's loans past due more than 90 days, please see Note 31 (*Risk Management*) of the Audited Financial Statements as of and for the year ended 31 December 2012. Other non-performing loans are extracted from the Group's unaudited IFRS-based management accounts, and represent loans which are past due for 90 days or less and for which there are additional indications of non-performance. These additional indications of non-performance may vary and include, but are not limited to, impairment rate of the loan (being the allowance for impairment of the loan as percentage of the respective gross outstanding exposure), poor financial performance (actual or forecasted) or default of the respective borrower or recent material restructuring of the loan due to the borrower's inability to pay.

The Bank has a Problem Loan Recovery Department, which reports to the Deputy CEO (Chief Legal Officer). The Group wrote-off loans to customers of GEL 67.6 million (US$40.8 million), GEL 49.7 million, and GEL 77.5 million for the years ended 31 December 2012, 2011 and 2010. In 2012, the Group recovered GEL 30.0 million (US$18.1 million) from previously written-off loans, as compared to recovering GEL 28.8 million and GEL 42.7 million in 2011 and 2010.

For a detailed description of the Bank's lending policies and procedures, see "*Lending Policies and Procedures*".

Operational Risk

The Bank is exposed to operational risks, arising out of the various operational activities in which it is engaged. Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank aims to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and training and assessment processes, including the use of internal audit.

The Bank manages its operational risks by establishing, monitoring and continuously improving its policies and procedures relating to the various aspects of the Bank's cash, payments, accounting, trading and core processing operations and data backup and disaster recovery arrangements.

The Bank has an integrated control framework encompassing operational risk management and control, AML compliance, corporate and information security and physical security, each of which is managed by a separate department, and an internal audit function for the Bank.

The Operational Risk Management and Control Department is responsible for identification and assessment of operational risk categories within the Bank's processes and operations, detecting critical risk areas or groups of operations with an increased risk level, developing response actions and the imposition of restrictions in critical risk zones to mitigate identified risk and developing business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibilities. The Operational Risk Management and Control Department is also responsible for developing and updating policies and procedures and ensuring that these policies and procedures meet legal and regulatory requirements and help to ensure that material operating risks are within acceptable levels. It also monitors and periodically reviews the Bank's internal control systems to detect errors or infringements by the Bank's departments and divisions. The Head of the Operational Risk Management Department, who reports to the Deputy CEO (Chief Risk Officer), is responsible for the oversight of the Bank's operational risks.

Anti Money Laundering Compliance

The Bank's AML Compliance Department is responsible for the implementation of the Bank's AML programme (including the development of AML policies and procedures, transaction monitoring and reporting and employee training) throughout the Bank and its subsidiaries. The AML programme is based on recommendations and requirements of international organisations including FATF and OFAC recommendations. The Bank's Internal Audit Department makes annual assessments of the Bank's AML systems and provides independent assurance of internal controls.

The Bank has policies and procedures aimed at preventing money laundering and terrorist financing, including a general anti-money laundering policy and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for reporting to the FMS, a legal entity of public law. The FMS was established in 2003 and serves as Georgia's Financial Intelligence Unit. These procedures aim to, among other things, mitigate the risk of the Bank being used as a vehicle for money laundering or terrorist financing, protect the Bank from financing and reputation risks of being associated with money laundering or terrorist financing activities and ensure that banking services are provided only to bona fide customers.

The Bank has implemented specific policies and procedures in order to satisfy the requirements of the EU's Third Directive, which requires financial institutions to identify and verify the identity of its customers and their beneficial owners and monitor its customers' transactions, while taking into account a risked-based approach. Adopting a risk-based approach implies the adoption of a risk management process for dealing with money laundering and terrorist financing. This process encompasses recognising the existence of risks, undertaking an assessment of those risks and developing strategies to manage and mitigate the identified risks. The Bank uses a risk assessment matrix based on customer, sector, country and product risk. The Bank has a general AML policy; "know-your-customer" procedures that require it to identify its customers, verify their identity and their ultimate beneficial owners as well as the economic rationale of their transactions; "know-your-correspondent-bank" procedures that involve careful screening of prospective correspondent banks' AML policies; and "know your employee" procedures to prevent its employees' involvement in money laundering and financing terrorism.

The Bank's risk-based approach means that it applies enhanced due diligence procedures if it determines that there is a significant risk that particular customers are engaged in money laundering or financing terrorism.

The Bank carries out transaction monitoring using profiling and rules-based methodologies. Customer profiling is used to identify unusual patterns of activity by comparing current patterns with previous transactions by the same customer or peer group. Under the rule-based methodology, certain types of transactions over GEL 30,000 or its equivalent in foreign currencies as well as transactions involving certain high-risk, non-cooperative or suspicious jurisdictions are subject to monitoring and reporting.

The Bank's transaction monitoring system is supported by a software application that enables fully-automated monitoring of all transactions against blacklists. These blacklists include all sanctions lists and lists of banned individuals and organisations maintained by OFAC, the European Union, the United Nations and Interpol, including OFAC's specially designated nationals list, among others. The Bank also screens customers to determine whether they are politically exposed persons or other high risk customers. It applies special KYC procedures prior to opening an account for a politically exposed person and requires approval from a deputy CEO.

The Bank is obliged to notify the FMS of all transactions that are subject to monitoring. These reports are currently filed in electronic form in the offline mode by the AML Compliance Department, although the Bank is implementing a new application to enable online automated filing.

Internal Audit

The principal function of the Bank Internal Audit Department is to reduce the levels of operational and other risks, audit the Bank's internal control systems, and detect any infringements or errors on the part of the Bank's departments and divisions. The Bank Internal Audit Department ensures that the Bank's policies conform to current legislation and regulation and professional norms and ethics and it is responsible for monitoring and assessing the adequacy of compliance with internal procedures at all levels of the Bank's management. This Department regularly inspects the integrity, reliability and compliance with applicable law of operations conducted by the Bank's risk management departments, and regularly reviews the reliability of the Bank's information technology systems in accordance with a predetermined schedule. It also assesses the reliability and security of financial information and monitors the Bank's internal controls and reporting procedures.

The Bank Internal Audit Department is independent of the Bank Management Board. The Head of the Bank Internal Audit Department is appointed by the Bank Supervisory Board and reports directly to the Bank Audit Committee. The Bank Internal Audit Department has 11 employees. The Bank's Internal Audit Department audits all of the Bank's subsidiaries, apart from BNB which has its own internal audit department that report to the Bank's Internal Audit Department and BNB's audit committee.

As part of its auditing procedures, the Bank Internal Audit Department is responsible for the following:

- identifying and assessing potential risks regarding the Bank's operations;
- reviewing the adequacy of the existing controls established in order to ensure compliance with the Bank's policies, plans, procedures and business objectives;
- developing internal auditing standards and methodologies;
- carrying out planned and random inspections of the Bank's branches and subdivisions and auditing its subsidiaries;
- analysing the quality of the Bank's products;
- participating in external audits and inspections by the NBG;

- making recommendations to management on the basis of external and internal audits to improve internal controls;

- monitoring the compliance of the Bank with the NBG regulations; and

- monitoring the implementation of auditors' recommendations.

The Bank's internal audit department applies a risk-based audit approach to assess the significant risks that impact the Bank's business, how (and how well) those risks are managed and controlled, what measures are used to monitor the process, the reliability of the Bank's key performance indicators and management information and the efficiency of the process.

PRINCIPAL SUBSIDIARIES

Bank of Georgia had the following direct and indirect subsidiary undertakings as of 30 June 2013:

Name	Registered office	Activity	Percentage of capital held	Amount of issued capital
Consolidated Subsidiaries – Georgia				
JSC BG Capital (formerly JSC Galt and Taggart Securities)	Tbilisi, Georgia	Brokerage and asset management	100.0% - Bank of Georgia	GEL 5,148,275
JSC Galt and Taggart Holdings	Tbilisi, Georgia	Investment	100.0% - Bank of Georgia	GEL 14,408,011
Professional Basketball Club Dinamo Tbilisi, LLC	Tbilisi, Georgia	Investment	100.0% - Galt and Taggart Holdings	GEL 1,000,000
JSC Liberty Consumer (formerly known as JSC Galt and Taggart Capital)	Tbilisi, Georgia	Investment	13.60% - Bank of Georgia 51.66% - Galt and Taggart Holdings 2.25% - BG Capital	GEL 603,058
JSC m2 Real Estate (formerly JSC SB Real Estate)	Tbilisi, Georgia	Real estate	93.90% - Bank of Georgia 6.10% - Galt and Taggart Holdings	GEL 3,301,388
Caucasus Autohouse, LLC	Tbilisi, Georgia	Automarket	100.0% - JSC Galt and Taggart Holdings	GEL 200
Tamarashvili 13, LLC	Tbilisi, Georgia	Real estate	100.0% - m2 Real Estate	GEL 15,000,000
m2 at Kazbegi, LLC	Tbilisi, Georgia	Real estate	100.0% - m2 Real Estate	GEL 200
m2 at Tamarashvili, LLC	Tbilisi, Georgia	Real estate	100.0% - m2 Real Estate	GEL 200
m2 at Nutsubidze, LLC	Tbilisi, Georgia	Real estate	100.0% - m2 Real Estate	GEL 200
JSC Intertour	Tbilisi, Georgia	Travel agency	99.94% - Liberty Consumer	GEL 562,405
JSC Prime Fitness	Tbilisi, Georgia	Fitness centre	100.0% - Liberty Consumer	GEL 527,822
MetroNet, LLC	Tbilisi, Georgia	Communication services	100.0% - GC Holdings	GEL 455,200
JSC Insurance Company Aldagi (formerly JSC Insurance Company Aldagi BCI)	Tbilisi, Georgia	Insurance	24.16% - Galt and Taggart Holdings 75.84% - Bank of Georgia	GEL 15,286,105
JSC My Family Clinic	Tbilisi, Georgia	Healthcare	51.0% - Insurance Company Aldagi	GEL 5,538,245
Biznes Centri Kazbegze, LLC	Tbilisi, Georgia	Various	100.0% - Insurance Company Aldagi	GEL 200
JSC Kutaisi St. Nicholas Surgery Hospital	Kutaisi, Georgia	Medical services	71.87% - My Family Clinic	GEL 317,589
Kutaisi Regional Clinical Hospital, LLC	Kutaisi, Georgia	Medical services	100.0% - My Family Clinic	GEL 464,770
JSC Zugdidi multi profile Clinical Hospital "Republic"	Zugdidi, Georgia	Medical services	100.0% - My Family Clinic	GEL 813,985
JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	Kutaisi, Georgia	Medical services	66.7% - My Family Clinic	GEL 990,120
JSC Chkhorotskhu Regional Central Hospital	Chkhorotskhu, Georgia	Medical services	100.0% - My Family Clinic	GEL 58,137
Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	Kutaisi, Georgia	Medical services	66.7% - My Family Clinic	GEL 34,487,020
E.K. Pipia Central Hospital of Tsalenjikha, LLC	Tsalendjikha, Georgia	Medical services	100.0% - My Family Clinic	GEL 508,490
Martvili Multi profile Hospital, LLC	Martvili, Georgia	Medical services	100.0% - My Family Clinic	GEL 41,152
Abasha Outpatient-Polyclinic Union, LLC	Abasha, Georgia	Medical services	100.0% - My Family Clinic	GEL 54,070
Tskaltubo Regional Hospital, LLC	Tskhaltubo, Georgia	Medical services	66.7% - My Family Clinic	GEL 1,574,000
Khobi Central Regional Hospital, LLC	Khobi, Georgia	Medical services	100.0% - My Family Clinic	GEL 284,852
Imedi L Dent, LLC	Tbilisi, Georgia	Medical services	100.0% - Insurance Company Aldagi	GEL 390,000
Aliance, LLC	Tbilisi, Georgia	Various	100.0% - Insurance Company Aldagi	GEL 778,810
Green Way, LLC	Bolnisi, Georgia	Various	100.0% - Insurance Company Aldagi	GEL 14,600
Unimed Achara, LLC	Tbilisi, Georgia	Medical services	100.0% - Insurance Company Aldagi	GEL 16,674,177
Unimedi Samtskhe, LLC	Tbilisi, Georgia	Medical services	100.0% - Insurance Company Aldagi	GEL 2,986,808
Unimedi Kakheti, LLC	Tbilisi, Georgia	Medical services	100.0% - Insurance Company Aldagi	GEL 5,331,036
Centromed, LLC	Tbilisi, Georgia	Medical services	100.0% - Green Way, LLC	GEL 1,046,000
Georgian Leasing Company, LLC	Tbilisi, Georgia	Leasing	100.0% - Bank of Georgia	GEL 3,180,000
JSC GC Holdings	Tbilisi, Georgia	Investment	100.0% - Galt and Taggart Holdings	GEL 11,943,478
JSC Georgian Card	Tbilisi, Georgia	Card processing	56.11% - GC Holdings 0.09% - Liberty Consumer	GEL 3,500,000
Direct Debit Georgia, LLC	Tbilisi, Georgia	Electronic payment services	100.0% - GC Holdings	GEL 5,044,050
JSC United Securities Registrar of Georgia	Tbilisi, Georgia	Registrar	100.0% - Galt and Taggart Holdings	GEL 630,000
Metro Service +, LLC	Tbilisi, Georgia	Business servicing	80.0% - Galt and Taggart Holdings 20.0% - Bank of Georgia	GEL 2,850,200
JSC Teliani Valley	Telavi, Georgia	Winery	50.23% - Liberty Consumer 0.65% - BG Capital	GEL 770,943
Teliani Trading (Georgia), LLC	Tbilisi, Georgia	Distribution	100.0% - Teliani Valley	GEL 1,095,458
Le Caucase, LLC	Tbilisi, Georgia	Cognac Production	100.0% - Teliani Valley	GEL 200
Kupa, LLC	Telavi, Georgia	Oak Barrel Production	70% - Teliani Valley	GEL 200
Consolidated Subsidiaries – International				
JSC Belarusky Narodny Bank	Minsk, Belarus	Banking	36.53% - Bank of Georgia 43.46% - Benderlock Investments Limited	BYR 87,650,740,100
BNB Leasing, LLC	Minsk, Belarus	Leasing	99.9% - Belarusky Narodny Bank	BYR 5,000,000
Benderlock Investments Limited	Nicosia, Cyprus	Investments	100.0% - Galt and Taggart Holdings Limited	EUR 10,502,000
Galt and Taggart Holdings Limited	Nicosia, Cyprus	Investment	94.34% - BG Capital 5.66% - Bank of Georgia	EUR 608,182
BG Trading Limited (formerly Galt & Taggart Trading Limited)	Nicosia, Cyprus	Investment	100.0% - Galt and Taggart Holdings Limited	EUR 564,300
BG Capital (Belarus), LLC (formerly Galt and Taggart Securities (Belarus), LLC)	Minsk, Belarus	Brokerage	99.9% - Galt and Taggart Holdings Limited	USD 70,000

			0.1% - BG Trading Limited	
Georgia Financial Investments, LLC	Ramat Gan, Israel	Information Sharing and Market Research	100.0% - Galt and Taggart Holdings	ILS 100
Teliani Trading (Ukraine), LLC	Kiev, Ukraine	Distribution	100.0% - Teliani Valley	UAH 40,000
Bank of Georgia Representative Office Hungary	Budapest, Hungary	Information Sharing and Market Research	100.0% - JSC Bank of Georgia	HUF 97,903,750
Bank of Georgia Representative Office UK Limited	London, United Kingdom	Information Sharing and Market Research	100.0% - Galt and Taggart Holdings	GBP 1
Minority Shareholding Interests – Georgia				
JSC iCall	Tbilisi, Georgia	Call centre	27.0% - Liberty Consumer	GEL 20,000
JSC N Tour	Tbilisi, Georgia	Travel Services	30.0% - Liberty Consumer	GEL 2,857
JSC Hotels and Restaurants Management Group - m/group	Tbilisi, Georgia	Management	10.0% - Liberty Consumer	GEL 30,000
Ad Style, LLC	Tbilisi, Georgia	Advertising	32.45% - Prime Fitness	GEL 2,000
JSC Georgian Stock Exchange	Tbilisi, Georgia	Stock Exchange	32.0% - BG Capital	GEL 30,000
JSC Binatmshenebeli	Tbilisi, Georgia	Construction	19.99% - Bank of Georgia	USD 464,123
			2.79% - Galt and Taggart Holdings	
JSC The Guivy Zaldastanishvili American Academy in Tbilisi	Tbilisi, Georgia	Education	14.11% - JSC Bank of Georgia	
Securities Interbank Central Depository TBSB +, LLC	Tbilisi, Georgia		18.18% - JSC Bank of Georgia	GEL 2,200
JSC CreditInfo Georgia	Tbilisi, Georgia		16.63% - JSC Bank of Georgia	GEL 343,940
JSC Vere Real Estate	Tbilisi, Georgia		11% - JSC SB Real Estate	GEL 10,411,565
Insurance Informational Bureau, LLC	Tbilisi, Georgia		22.5% - JSC Insurance Company Aldagi	GEL 200
PJSC Bank Pershyi (formerly JSC BG Bank) (1)	Kiev, Ukraine	Banking	19.4% - Bank of Georgia	UAH 271,631,000

(1) Bank of Georgia sold 80% of its equity interest from 99.4% in PJSC Bank Pershyi in February 2011

	As of 30 June 2013	**As of 31 December**		
Name of Subsidiary or Associate	**2013**	**2012**	**2011**	**2010**
PJSC Bank Pershyi(1)	19.4%	19.4%	19.4%	99.4%
Valimed Unitamoe Predpreyatie(2)	-	-	-	100.0%
JSC BG Capital (Georgia)(3)	100.0%	100.0%	100.0%	100.0%
JSC Insurance Company Aldagi (formerly JSC Insurance Company Aldagi BCI) (4)	100.0%	100.0%	100.0%	100.0%
Georgian Leasing Company, LLC(5)	100.0%	100.0%	100.0%	100.0%
JSC GC Holdings(6)	100.0%	100.0%	100.0%	100.0%
JSC m2 Real Estate (formerly JSC SB Real Estate) (7)	100.0%	100.0%	100.0%	100.0%
JSC Liberty Consumer(8)	67.5	67.5%	67.1%	65.3%
JSC Galt and Taggart Holdings (Georgia)(9)	100.0%	100.0%	100.0%	100.0%

(1) Formerly known as JSC BG Bank, this entity is engaged in banking in Ukraine. PJSC Bank Pershyi is no longer a subsidiary as Bank of Georgia disposed of its controlling stake in 2011.

(2) This entity, engaged in investment activities in Belarus, was sold in 2011.

(3) JSC BC Capital (Georgia) provides brokerage and asset management services within Georgia. It holds a 43.46% interest in JSC Belarusky Narodny Bank, the Group's Belarus banking subsidiary, which has a 99.9% subsidiary BNB Leasing LLC. It also holds 2.25% of JSC Liberty Consumer, 94.34% of Galt and Taggart Holdings Limited, 0.65% of JSC Teliani Valley and 32.0% of JSC Georgian Stock Exchange

(4) Primarily engaged in the insurance business, Aldagi BCI holds an interest in the following healthcare and medical subsidiaries:
JSC My Family Clinic (51.0%); Imedi L Dent, LLC (100.0%), Aliance, LLC (100.0%), Green Way, LLC (100.0%), Unimed Achara, LLC (100.0%), Unimed Kakheti, LLC (100.0%), Unimed Samtskhe, LLC (100.0%), Biznes Centri Kazbegze, LLC (100.0%),
JSC My Family Clinic, Company operating in medical sector holds an interest in the following subsidiaries:
Kutaisi Regional Clinical Hospital, LLC (100.0%); JSC Kutaisi St. Nicholas Surgery Hospital (71.87%),
JSC Zugdidi multi profile Clinical Hospital "Republic" (100.0%); JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children (66.7%)
JSC Chkhorotskhu Regional Central Hospital (100.0%); Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC (66.7%);
E.K. Pipia Central Hospital of Tsalenjikha, LLC (100.0%); Martvili Multi profile Hospital, LLC (100.0%); Abasha Outpatient-Polyclinic Union, LLC (100.0%)
Tskaltubo Regional Hospital, LLC (66.7%); Khobi Central Regional Hospital, LLC (100.0%)

(5) Provides leasing services.

(6) A holding company with a 100.0% interest in: MetroNet, LLC, a provider of communication services; and Direct Debit Georgia, LLC which provides electronic payment services; and a 56.11% interest in JSC Georgian Card, card processing.

(7) Engaged in real estate development and holds a 100.0% interest in LLC and Tamarashvili 13, LLC which was formed in 2011.

(8) A holding company with interests in the following: JSC Teliani Valley (50.23%), a holding company with investments in wine and cognac production and distribution;
JSC Intertour (99.94%), a travel agency; JSC Prime Fitness (100.0%), a fitness centre operator;

(9) A holding company with 100.0% interests in: Georgia Financial Investments, LLC, a market research business; JSC GC Holdings, holding company; Caucasus Autohouse, LLC, real estate services;
JSC United Securities Registrar of Georgia which provides securities registrar services within Georgia; Bank of Georgia Representative Office UK Limited and

Professional Basketball Club Dinamo Tbilisi, LLC.;
80.0% interest in Metro Service +, LLC, which provides business services; 51.66% of JSC Liberty Consumer, holding company;
24.16% of Insurance Company Aldagi BCI, engaged in Insurance business; 6.10% of JSC SB Real Estate operating in real estate business, 2.79% of JSC Binatmshenebeli, operating in real estate sector.

Material Subsidiaries

Management considers Aldagi to be the Bank's only material subsidiary. Prior to the sale of an 80% equity interest in BG Bank in February 2011 and the Bank's intention to exit from its remaining equity interest in BG Bank at an appropriate time, Management also considered BG Bank to be a material subsidiary of the Bank.

Aldagi

The Group provides insurance-related products and services through its wholly-owned subsidiary, Aldagi. Aldagi operates in both the life insurance and non-life insurance markets in Georgia, although its primary focus is on the provision of non-life insurance-related products and services.

Aldagi is a leader in the Georgian life and non-life insurance markets, based on a market share (based on gross premiums revenue) of 33.3% of the life and 31.8% of the non-life insurance markets, as of 31 December 2012, as compared to a market share of 21.2% and 20.0%, respectively, as of 31 December 2011 and a market share of 27.8% and 17.3%, respectively as of 31 December 2010, (in each case, according to statistical information published by the NBG). Between April and July 2012, the Bank's wholly owned insurance subsidiary, Aldagi (known as "Aldagi BCI" at the time of acquisition), acquired 100% of Imedi L, the third largest insurance and healthcare company in Georgia. Total assets of Imedi L at the time of acquisition comprised GEL 92.5 million, with net assets of GEL 36.0 million. The total consideration for the acquisition comprised of GEL 9.6 million in cash and GEL 26.9 million of pre-existing loan to Imedi L. Aldagi provides a wide range of corporate and consumer insurance and related products in the following areas: property and casualty; liability, including general third party liability, motor third party liability, carriers' liability, professional indemnity, bankers' blanket bond, product liability and employer liability; personal risks, including health insurance, personal accident, travel and term life insurance, performance bonds and guarantees and agriculture. Aldagi cross-sells its insurance products with the Bank's retail and corporate banking products. Aldagi operates Aldagi Assistance, a 24-hour telephone helpline for its health insurance customers. For further information, see "*Description of Business—Synergistic Businesses—Insurance and Healthcare—Insurance*".

MANAGEMENT AND EMPLOYEES

Overview

Bank of Georgia's corporate bodies are the General Meeting of Shareholders ("**GMS**"), the Bank Supervisory Board and the Bank Management Board, each having its own responsibilities and authorities in accordance with Georgian law and the Bank's Charter. The GMS elects the members of the Bank Supervisory Board, which is responsible for supervising the Bank Management Board. The Bank Supervisory Board appoints the members of the Bank Management Board, which is the executive body of the Bank directly responsible for day-to-day operations. According to the Banking Law, each bank in Georgia is required to have an audit committee, elected by and reporting to the supervisory board, which mainly facilitates the activities of the internal audit and external auditors of a bank.

General Meeting of Shareholders

All shareholders registered with the share registrar on the record date of the GMS shall have the right to attend and vote (if applicable) at the meeting. The Law on Entrepreneurs provides that holders of preferred shares are not entitled to voting rights at the GMS, unless the Charter or any relevant share issue prospectus allocates voting rights to preferred shareholders. According to the Charter of the Bank, holders of preferred shares are not entitled to voting rights at the GMS. As of the date of this Prospectus, the Bank has not issued any preferred shares. Shareholders may be represented at the GMS by a proxy.

A shareholder holding more than 75.0% of the Bank's voting shares may pass a resolution without convening a GMS. Such decision will be equivalent to the minutes of the GMS and is considered a resolution of the GMS. In such cases the remaining shareholders are notified of the resolution.

Under Georgian law and the Charter the shareholders are authorised to pass resolutions on the following issues at a GMS:

- approve any amendments to the Charter;
- increase of share capital;
- reduction of share capital in cases envisaged by applicable law;
- liquidation of the Bank;
- approve any merger, division or transformation of the Bank into another legal entity;
- full or partial cancellation of pre-emptive rights during the increase of share capital;
- approve Bank Supervisory Board and Bank Management Board proposals regarding the distribution of profits, or if these bodies cannot provide a joint proposal, making a decision about the use of profits;
- elect or dismiss Bank Supervisory Board members and determine their term of service;
- establish a code of conduct for Bank Supervisory Board members;
- approve Bank Supervisory Board and Bank Management Board reports;
- approve remuneration of Bank Supervisory Board members;
- elect auditors;
- approve participation in litigation against Bank Supervisory Board and Bank Management Board members, including the appointment of a representative in such litigation;
- approve acquisition, sale, transfer, exchange (or such related transactions) or encumbrance of the Bank's assets, the value of which is more than 25.0% of the equity value of the Bank;
- approve annual accounts;

- approve Interested Party Transactions (as defined in the Law of Georgia on Securities Market), the value of which constitutes 10% or more of the equity value of the Bank; and
- other issues provided by law and the Charter.

According to the Charter, decisions on all other issues are made by the Supervisory Board and the Management Board within their respective capacities.

Bank Supervisory Board

In accordance with the Bank's Charter, it is the responsibility of the Bank Supervisory Board to supervise the Bank Management Board. The Supervisory Board also assists the Bank Management Board by giving advice. In performing their duties, the Bank Supervisory Board members are required to act in the best interests of all the shareholders of the Bank and its business.

Responsibilities of the Bank Supervisory Board include to:

- supervise the activities of the Bank Management Board;
- appoint and dismiss the CEO and other directors, conclude and terminate service contracts with them, as well as work out a code of conduct for the Bank Management Board members;
- approve and amend the Bank's policy and other regulatory documents;
- inspect the Bank's accounts and property, including inspection of conditions of cash desk, securities and goods, personally or with the help of invited experts;
- request reports on the Bank's activities from the Bank Management Board (including dealing with associated companies and subsidiaries) and review the information provided by internal audit or external inspections;
- convene an EGM, if necessary;
- review annual reports and the proposals of the Bank Management Board on profit distribution;
- represent the Bank in proceedings against the Bank's CEO and other directors;
- approve Interested Party Transactions;
- approve the annual budget;
- elect and dismiss Audit Committee members (including the chairman); and
- make decisions in other cases provided by applicable laws.

The Bank's Supervisory Board currently consists of the seven members listed below. Consistent with its corporate governance policies, the Bank and BGH intend to move towards a fully independent Supervisory Board (for the Bank) and Board of Directors (for BGH). Consequently, within the next 12 months, the Bank expects to replace at least three members of its Supervisory Board.The business address for all the Bank Supervisory Board members is 29a Gagarini Street, Tbilisi 0160, Georgia.

Name	Age	Current Position	Expiration of Term of Office / Reappointment
Neil Janin	58	Chairman of the Bank Supervisory Board	2014
David Morrison	61	Vice-Chairman of the Bank Supervisory Board	2017
Allan Hirst	64	Supervisory Board Member	2014
Ian Hague	52	Supervisory Board Member	2017
Kaha Kiknavelidze	40	Supervisory Board Member	2016
Hanna-Lenna (Hanna) Loikkanen	44	Supervisory Board Member	2014
Alasdair (Al) Breach	42	Supervisory Board Member	2014

Neil Janin has served as Chairman of the Bank Supervisory Board since 2010 and has served as a member of the Bank Remuneration Committee since 24 February 2012. He was appointed as a Director of BGH on 24 October 2011 and serves as Chairman of the BGH Board. He also serves as Chairman of the BGH Nomination Committee and as a member of the BGH Remuneration Committee. Outside of the Group, Mr Janin serves as counsel to Chief Executive Officers of both for-profit and non-profit organisations, and provides consulting services to McKinsey & Co. He also serves as a director in a number of business and non-profit organisations. Prior to joining the Bank, Mr Janin was Director of McKinsey & Co. in its Paris office. He was employed by the firm for over 27 years, from 1982 until his recent retirement. At McKinsey and Co., he conducted engagements in retail, asset management and corporate banking areas, he was also involved in every aspect of organisational practice such as design, leadership, governance, performance enhancement and transformation. Mr Janin has practised in Europe, Asia and North America. In addition, in 2009, while serving as member of the French Institute of Directors (IFA), Mr Janin authored a position paper on the responsibilities of the board of directors with regards to the design and implementation of a company's strategy. Before joining McKinsey & Co., Mr Janin worked for the Chase Manhattan Bank (now JP Morgan Chase) in New York and Paris, and Procter & Gamble in Toronto. Mr Janin holds an MBA from York University, Toronto and a joint honours degree in Economics and Accounting from McGill University, Montreal.

David Morrison has served as Vice-Chairman of the Bank Supervisory Board since 2010, and has served as member of the Bank Supervisory Board since June 2009. He has also served as a member of the Bank Audit Committee since June 2010 and Bank Remuneration Committee since 24 February 2012. He was appointed as a Director of BGH on 24 October 2011 and serves as a Senior Independent Non-Executive Director. He is also a member of the BGH Audit Committee, the BGH Nomination Committee and the BGH Remuneration Committee. Prior to joining the Bank Supervisory Board, he became founding executive director of the Caucasus Nature Fund (CNF), a charitable trust fund dedicated to nature conservation in Georgia, Armenia and Azerbaijan. Prior to joining the CNF, Mr Morrison worked for 28 years at Sullivan & Cromwell LLP, where he served as Managing Partner in the firm's continental European offices. His practice focused on advising public companies in a transactional context, from mergers and acquisitions to capital raisings. Key banking clients he advised include Banco Espirito Santo in Portugal and Germany's development bank KfW (Mr. Morrison served on the board of directors of KfW's finance subsidiary for 20 years). Mr. Morrison is the author of several publications on securities law related topics, and has been recognised as a leading lawyer in two jurisdictions—Germany and France. Mr Morrison graduated from Yale College in 1974, received his Law degree from UCLA, and was a Fulbright scholar at the University of Frankfurt.

Alasdair (Al) Breach has served as a member of the Bank Supervisory Board since 2010 and served as an advisor to the Bank Supervisory Board from late 2009. Since June 2010, Mr Breach has also served as Chairman of the Bank Remuneration Committee. He was appointed as a Director of BGH on 24 October 2011 and serves as an Independent Non-Executive Director. He is also Chairman of the BGH Remuneration Committee and a member of the BGH Nomination Committee. Outside of the Bank, Mr Breach runs Furka Advisors, a Swiss-based asset management firm, and is the co-founder of The Browser.com, a web-based curator of current affairs writing, established in 2008. He has also served on the board of Vostok Nafta Investment plc, a Russia-focused Stockholm-based investment company, since 2007. In January 2003, Mr Breach joined Brunswick UBS (later UBS Russia) as Chief Economist, and later additionally became Head of Research and MD until October 2007. From 1998 to 2002 Mr Breach was Russia and FSU economist at Goldman Sachs, based in Moscow. He obtained an MSc in Economics from LSE and a degree in Mathematics with Philosophy from Edinburgh University.

Allan Hirst has served as a member of the Bank Supervisory Board since 2006. Mr Hirst has also served as Chairman of the Bank Audit Committee since June 2010. Mr Hirst acted as Vice-Chairman of the Bank Supervisory Board between 2008 and 2010. He was appointed as a Director of BGH on 24 October 2011 and serves as an Independent Non-Executive Director. He is Chairman of the BGH Audit Committee and a member of the BGH Nomination Committee. Prior to joining the Bank, he was employed by Citibank N.A. for nearly 25 years until his retirement in February 2005. At Citibank he led the bank's expansion into Central and Eastern Europe, Russia and Central Asia. From 1999 to 2004, Mr Hirst served as President and Managing Director of ZAO Citibank Russia, having an oversight over the bank's operations in the CIS. Prior to moving to Russia, Mr Hirst worked in various senior capacities at Citibank, including as division executive in the Middle East and Indian Sub-continent and as division executive responsible for establishing the bank's network in Central and Eastern Europe. Mr Hirst additionally serves as non-executive director of the Financial Services Volunteer Corps and Phico Theurapeutics. He is also a member of Executive Committee of the board of the FSVC. Mr Hirst received an MBA from University of Texas.

Kaha Kiknavelidze has served as a member of the Bank Supervisory Board since February 2008. Mr Kiknavelidze has also served as a member of the Bank Audit Committee since December 2008. He was appointed as a Director of BGH on 24 October 2011 and serves as an Independent Non-Executive Director. He is also a member of the BGH Audit Committee and the BGH Nomination Committee. Joining the Bank Supervisory Board was his second role within the Bank, having started his career as Financial Manager at the Bank in 1994. He is also the managing partner of Rioni Capital Partners LLP, the investment management company which he founded in 2007. Mr Kiknavelidze has over 15 years of experience in the equity markets, including serving as Executive Director of UBS where he supervised the Russian oil and gas research team. Prior to joining UBS, he spent eight years at Troika Dialog, initially covering metals and mining and the utilities sectors and later, as deputy head of research and associate partner, leading the oil and gas team. Mr Kiknavelidze received his undergraduate degree in Economics with honours from the Georgian Agrarian University in Tbilisi, Georgia and received his MBA from Emory University in the United States.

Ian Hague has served as a member of the Bank Supervisory Board since 2004. He was appointed as a Director of BGH on 24 October 2011 and serves as a Non-Executive Director. He is also a member of the BGH Nomination Committee. Mr Hague is also the Managing Partner and co-founder of Firebird Management LLC, a New York-based investment fund since 1994. Prior to this, he worked for the United Nations Secretariat. Mr Hague received his undergraduate degree from Wesleyan University in 1983 and was awarded a Masters degree from Monterey Institute of International Studies. He has also conducted graduate work at Columbia University's Harriman Institute.

Hanna-Leena (Hanna) Loikkanen has served as a member of the Bank Supervisory Board since 2010. She was appointed as a Director of BGH on 24 October 2011 and serves as a Non-Executive Director of BGH. She is also a member of the BGH Nomination Committee. Ms Loikkanen has over 18 years of experience in working with financial institutions in Russia and Eastern Europe. She has been the Chief Representative and Head of the Private Equity team at East Capital, a Swedish asset management company in Moscow, since November 2007. Ms Loikkanen previously held the position of Country Manager and Chief Executive Officer at FIM Group in Russia, a Finnish investment bank, where she was responsible for setting up and running the Bank's brokerage and corporate finance operations in Russia. Before joining FIM Group, Ms Loikkanen worked for Nordea Finance for four years in various management positions in Poland, the Baltic States and Finland. Earlier in her career, Ms Loikkanen worked for Merita Bank in St. Petersburg as Chief Representative as well as SEB in Moscow. She holds a Masters degree in Economics and Business Administration from the Helsinki School of Economics.

Bank Management Board

The Bank Management Board is an executive body that is responsible for the day-to-day management of the Bank (with the exception of the functions reserved to the GMS and the Bank Supervisory Board) and consists of the CEO and not less than three deputy CEOs. The Bank Management Board is accountable to the shareholders and the Bank Supervisory Board and its members are appointed and dismissed by the Bank Supervisory Board. The statutory term of each member of the Bank Management Board is four years. Banking regulations contain certain limitations as to who may become a member of the Bank Management Board and criteria that each director must fulfil (see "*Regulation of the Georgian Banking Sector—Regulation of Commercial Bank Employees and Supervisory Board Members*"). The Supervisory Board approves the remuneration and other conditions of employment for each member of the Bank Management Board. Certain resolutions of the Bank Management Board are subject to the prior approval of the Bank Supervisory Board.

Responsibilities of the Bank Management Board include to:

- conduct of the Bank's day-to-day activities;
- review of agenda items for GMS or Supervisory Board meetings, obtain all the necessary information, prepare proposals and draft resolutions;
- draft and present to the Bank Supervisory Board for approval the business plan for the following year (such business plan to include the budget, profit and loss forecast and the Bank's investments plan);
- review of issues in relation to lending, settlement, financing, cash services, security, accounting and reporting of cash and valuables of the Bank and internal controls;
- make decisions regarding the operation of the Bank's branches and service centres, ensuring that the branch managers and heads of service centres fulfil their tasks and functions;

- review the information provided by internal audit or external inspections, and the reports submitted by the branch managers and heads of service centres, make appropriate decisions;

- ensure the fulfilment of resolutions passed at the GMS and the Bank Supervisory Board;

- develop policies, by-laws and other regulatory documents which are approved by the Bank Supervisory Board and ensure compliance with such policies, by-laws and regulatory documents;

- decide on the appointment, dismissal, training and remuneration of staff;

- convene an EGM, if necessary; and

- any other issues which may be assigned to the Bank Management Board by the Bank Supervisory Board and/or the GMS.

The following activities may be carried out by the Bank Management Board only with the approval of the Bank Supervisory Board:

- acquisition and disposal of a stake in other companies if the amount of such stake/shares exceeds 50.0% of the total equity of such company or the volume of the transaction exceeds 2.5% of the Bank's equity value as at the end of the previous calendar month;

- acquisition, transfer and encumbrance of real estate and related ownership rights, if such transaction falls outside the scope of routine economic activity of the Bank and the volume of such transaction exceeds 2.5% of the Bank's equity value as at the end of the previous calendar month;

- establishment and liquidation of branches;

- investments, the partial or total amount of which exceeds 2.5% of the Bank's equity value as at the end of the previous calendar month;

- borrowing funds in excess of 2.5% of the Bank's equity value as at the end of the previous calendar month;

- securing credits and loans, if they fall outside the scope of routine economic activity;

- launching a new type of banking activity or terminating or suspending the existing type of banking activity;

- determination of general principles of business strategy and the business plan of the Bank and the development and approval of the annual budget and long-term liabilities;

- determination of the remuneration and/or additional benefits for the Bank's top management (CEO, other members of the Bank Management Board and any other top managers so selected by the Bank Supervisory Board);

- appointment and discharge of trade representatives;

- approval of an agreement or contract pursuant to which non-recurring expense or several-tranche expenditure of the Bank exceeds 1.0% of the Bank's equity value as at the end of the previous calendar month;

- determination and approval of internal policies and procedures for lending, investing, foreign exchange, assets and liabilities management, asset valuation, their classification and adequate provisioning;

- determination and approval of the minimal and maximal interest rates to be used on credits and deposits;

- redemption of the Bank's shares in cases envisaged by the applicable laws or effected through share buy backs; and

- other activities that may be prescribed by applicable laws.

On 20 February 2013, the Bank announced a reshuffle of the Bank's executive management, with Archil Gachechiladze, previously Deputy CEO (Corporate Banking), to replace Vasil Revishvili as Deputy CEO (Investment Management), and Sulkhan Gvalia, previously Deputy CEO (Risk), to become Deputy CEO (Corporate Banking). Bank of Georgia's Management Board currently consists of the members listed below. The business address for all of the Bank Management Board members is 29a Gagarini Street, Tbilisi, Georgia, 0160.

Name	Age	Current Position	Expiration of Term of Office / Reappointment
Irakli Gilauri	37	Chief Executive Officer	May 2016
Nikoloz (Nika) Gamkrelidze	33	Deputy CEO (Finance)	November 2015
Avtandil (Avto) Namicheishvili	39	Deputy CEO (Legal)	November 2015
Mikheil Gomarteli	38	Deputy CEO (Retail Banking)	November 2016
Archil Gachechiladze	34	Deputy CEO (Investment Management)	November 2016
Giorgi (George) Chiladze	42	Deputy CEO (Chief Risk Officer)	September 2016
Sulkhan Gvalia	39	Deputy CEO (Corporate Banking)	November 2016
Irakli Burdiladze	38	Deputy CEO (Affordable Housing)	November 2015

Irakli Gilauri has served as the Chief Executive Officer of the Bank since May 2006. He previously served as Chief Financial Officer of the Bank from September 2004 to 2006. He was appointed as a Director of BGH on 24 October 2011 and serves as Chief Executive Officer of BGH. He is also Chairman of the BGH Executive Committee. Before his employment with the Bank, Mr Gilauri was a banker at EBRD's Tbilisi and London offices for five years, where he worked on transactions involving debt and private equity investments in Georgian companies. Mr Gilauri also currently serves as Chairman of the supervisory board of ABCI and as member of the supervisory board of the following subsidiaries of the Bank: BG Capital, BNB and Joint Stock Company Galt & Taggart Holdings. Mr Gilauri received his undergraduate degree in Business Studies, Economics and Finance from the University of Limerick, Ireland, in 1998. He was later awarded the Chevening Scholarship, granted by the British Council, to study at the Cass Business School of City University, London, where he obtained his Master of Science Degree in Banking and International Finance in 2004.

Nikoloz (Nika) Gamkrelidze was appointed as Deputy CEO (Finance) of the Bank in October 2012, after having served as CEO of Aldagi since November 2007. Prior to joining Aldagi, he served as CEO of Joint Stock Company My Family Clinic from October 2005 to October 2007. Prior to joining My Family Clinic, Mr Gamkrelidze served as a consultant at Primary Healthcare Development Project (The World Bank Project) and worked on the development of pharmaceutical policy and regulation in Georgia. Prior to joining Primary Healthcare Development Project, Mr Gamkrelidze served at BCI Insurance Company as Head of the Personal Risks Insurance Department from 2002 to 2003. Mr Gamkrelidze started his career at the State Medical Insurance Company in 1998, where he worked for two years. Mr Gamkrelidze graduated from the Faculty of General Medicine of Tbilisi, with distinctions, and holds a Masters degree in International Healthcare Management from the Tanaka Business School of Imperial College London.

Avtandil (Avto) Namicheishvili has served as Deputy CEO (Legal) of the Bank since July 2008, having previously been the Bank's General Counsel since March 2007. He is also a member of the BGH Executive Committee. Before joining the Bank, Mr Namicheishvili was a partner at Begiashvili & Co. Limited, a leading Georgian law firm, where he acted as the Bank's external legal advisor from 2004. Mr Namicheishvili received undergraduate degrees in law and international economic relations from Tbilisi State University and received a graduate degree (LLM) in International Business Law from Central European University, Hungary.

Mikheil Gomarteli was appointed to the Bank Management Board as Deputy CEO (Retail Banking) in February 2009. Mr Gomarteli has been with the Bank since December 1997. During his 16 years of service with the Bank, Mr Gomarteli has held various senior positions including Co-Head of Retail Banking (from March 2007 to February 2009), Head of Business Development (from March 2005 to July 2005), Head of Strategy and

Planning (from 2004 to 2005), Head of Branch Management and Sales Coordination (from 2003 to 2004), Head of Branch Management and Marketing (from 2002 to 2003) and Head of Banking Products and Marketing (from 2000 to 2002). Mr Gomarteli holds a Diploma in Economics from Tbilisi State University.

Archil Gachechiladze was appointed Deputy CEO (Investment Management) as of May 2013, having previously served as Deputy CEO Corporate Banking. Prior to joining Bank of Georgia, Mr Gachechiladze served as deputy director in charge of Corporate Recovery at TBC Bank, Georgia, since August 2008. Prior to joining the Bank, from 2006 to 2008, Mr Gachechiladze was an Associate at Lehman Brothers Private Equity (currently Trilantic Capital Partners) in London. From 1998 to 2004, Mr Gachechiladze served as a Senior Associate at Salford Equity Partners (US$350 million fund with offices in London, Moscow, Belgrade and Tbilisi), a Senior Analyst at EBRD in Tbilisi and London, a Senior Financial Analyst at KPMG Barents in Tbilisi and as a Team Leader for the World Bank's CERMA Project in Tbilisi. Mr Gachechiladze is a CFA Charterholder and a member of the CFA Society in the United Kingdom. He received an MBA with distinction from Cornell University and undergraduate degrees in Economics and Law from Tbilisi State University.

Giorgi (George) Chiladze was appointed as Deputy CEO (Chief Risk Officer) in September 2013, rejoining the Bank after having personally served as Deputy CEO (Finance) from 2008 to 2011. From 2011 to 2013, Mr Chiladze worked at the Partnership Fund in the capacity of Deputy CEO. Mr Chiladze served as General Director of JSC BTA Bank (Georgia) from 2005 to 2011. Prior to joining JSC BTA Bank (Georgia), he was an executive member of the supervisory board of JSC Europace Insurance Company (2004-2005) and a founding partner of the management consulting firm, Altergroup plc. Mr Chiladze previously worked in the United States at the Program Trading Desk at Bear Stearns in New York City; he returned to Georgia in 2003. Mr. Chiladze received a Ph.D. in physics from Johns Hopkins University in Baltimore, Maryland and an undergraduate degree in physics from Tbilisi State University

Sulkhan Gvalia was appointed as Deputy CEO (Corporate Banking) in May 2013 after serving as Deputy CEO (Chief Risk Officer) of the Bank since January 2005. From 1995 to 2004, Mr Gvalia served as Deputy Chairman of the Bank Management Board of TbilUniversalBank (TUB), acquired by the Bank in November 2004. During his tenure at TUB, Mr Gvalia headed several departments, including finance, accounting and strategy. Mr Gvalia received his undergraduate law degree from Tbilisi State University.

Irakli Burdiladze was appointed as Deputy CEO (Affordable Housing) of the Bank in 2010. He previously served as Chief Operating Officer of the Bank from March 2007 to June 2010, after spending a year as Chief Financial Officer. Prior to joining the Bank, Mr Burdiladze served as CFO of the GMT Group, a leading real estate developer and operator in Georgia. As CFO, Mr Burdiladze was responsible for the group's capital raising efforts and transaction structuring. Mr Burdiladze received a graduate degree in International Economics and International Relations from the Johns Hopkins University School of Advanced International Studies and an undergraduate degree in International Relations from the Tbilisi State University.

Senior Managers

Details of the senior managers of the Group (the "**Senior Managers**"), other than members of the Bank Supervisory Board and Bank Management Board, are set out in the table below. The following table sets out the name, age, current position and term of appointment of the Senior Managers.

Name	Age	Position	Expiration of Term of office/ Reappointment
Murtaz Kikoria...	40	CEO, Aldagi	November 2016
Mariam (Macca) Ekizashvili....................	39	Head of Investor Relations / Head of UK Representative Office	October 2014
David Vakhtangishvili	35	Head of Finance Department	October 2014

Each of the Senior Managers can be contacted through the Bank's principal place of business at 29a Gagarini Street, Tbilisi, Georgia, 0160. Biographical details of the Senior Managers are set out below.

Murtaz Kikoria was appointed as CEO of Aldagi in October 2012, after having served as Deputy CEO (Finance) of the Bank since June 2011. Prior to this assignment, Mr Kikoria served as Acting Chief Executive Officer of BG Bank since June 2009. Mr Kikoria also serves as a member of the Supervisory Board of BG Bank.

Mr Kikoria joined the Bank as Deputy CEO (Compliance) in August 2008. From 2005 to 2007, Mr Kikoria served as a Senior Banker at EBRD. Prior to joining EBRD, Mr Kikoria served as Head of Banking Supervision and Regulation at the NBG from 2001 to 2005, having previously held various senior positions at United Georgian Bank and SilkRoad Bank. Mr Kikoria has also held the position of Chairman of the Bank Audit Committee since February 2008. Mr Kikoria received an undergraduate degree from Tbilisi State University in Economics, specialising in Finance and Credit.

Mariam (Macca) Ekizashvili has served as Head of Investor Relations and Funding since March 2013, having served as Head of Investor Relations of the Bank since August 2004. She has also served as Head of the Bank's UK Representative Office since September 2010. Since March 2012, Ms Ekizashvili also serves as the Head of Investor Relations of Bank of Georgia Holdings Plc. Prior to joining the Bank, Ms Ekizashvili worked for six years as an investment analyst at IFC in Washington D.C. and Tbilisi, Georgia Representative Office. Ms Ekizashvili holds an MBA from George Washington University School of Business and an undergraduate degree from the International Relations Department at Tbilisi State University.

David Vakhtangishvili was appointed as Head of the Finance Department of the Bank on 1 January 2007. Mr Vakhtangishvili has more than ten years of experience working for international audit firms. Prior to joining the Bank, Mr Vakhtangishvili served as a Senior Manager at Ernst & Young (Georgia) for four years, advising numerous clients in the CIS in a wide range of industries, with expertise in the financial services industry. Over the past nine years, Mr Vakhtangishvili has focused on auditing the financial statements of clients that have been prepared in accordance with IFRS and has extensive experience in transforming accounts prepared in accordance with national standards to IFRS. Mr Vakhtangishvili additionally specialises in conducting forensic audits, financial and operational due diligence, property and business valuations and market feasibility studies as well as provided operational management optimisation and risk management advice. Mr Vakhtangishvili holds a BBA from European School of Management, Tbilisi, Georgia.

Audit Committee

According to the Banking Law, Georgian banks are required to have an audit committee which mainly facilitates the activities of the internal audit and external auditors of a bank. The audit committee is formed by the Bank Supervisory Board. Bank of Georgia's Audit Committee is comprised of not less than three members. According to recent amendment to the Banking Law, all members of the audit committee shall be independent. The member is considered independent if he/she is not related to the commercial bank and he/she or his/her I and II ranking successors do not have any financial indebtedness towards commercial bank. Considering this amendment, the charter of the Bank (Section 10.1) shall be amended accordingly. The Audit Committee is presided over by the chairman who is elected by the Bank Supervisory Board.

The rights and obligations of the Audit Committee are to:

- set the accounting and reporting rules for the Bank, supervise the compliance with such rules and inspect the Bank's books and journals through the Bank's internal audit service;
- supervise the compliance of the Bank with the applicable laws;
- approve the regulations governing the Bank's internal audit services and ensure the functioning of the internal audit service of the Bank;
- ensure the independence of the internal audit service from the Supervisory and the Bank Management Boards;
- approve the operation plan of the internal audit service for the following fiscal year;
- review the quarterly reports of the internal audit service, approve and present to the Bank Supervisory Board and the Bank Management Board audit inspections and recommendations;
- supervise the activities of the internal audit, ensure its compliance with quarterly and annual operation plans;
- assess the activities carried out by the director of the internal audit service and individual auditors;
- approve the annual operations plan by quarters prepared by the internal audit service and supervise its fulfilment;
- assess the activities of each of the employees of the internal audit service in consideration of their professional skills and their ability to work independently and make appropriate decisions;
- together with the Bank Supervisory Board and Bank Management Board ensure the cooperation of the internal audit service with other structural units of the Bank;

- make recommendations to the Bank Supervisory Board on the employment/dismissal of the head and deputy head of the Bank's internal audit service, as well as on their remuneration;
- make recommendations (subject to the agreement of the head of the internal audit service) to the Bank Management Board on the employment/dismissal of the other staff of internal audit service, as well as on remuneration of such staff;
- facilitate the activities of the external auditors; and
- submit periodic reports about its activities to the Bank Supervisory Board.

Meetings of the Audit Committee shall be held at least once a quarter. In extraordinary cases, a meeting may be convened upon the request of the Bank Supervisory Board. The Audit Committee passes resolutions by a simple majority of votes. The attending members do not have the right to abstain from voting.

Allan Hirst and David Morrison have served as Audit Committee members of the Bank since June 2010 and Kaha Kiknavelidze has served on the Audit Committee since December 2008. Allan Hirst, serves as a chairman of the Audit Committee. See "*Supervisory Board*" above.

Remuneration Committee

The Remuneration Committee was established by the Bank Supervisory Board in May 2006 and consists of three independent members of the Bank Supervisory Board. The Remuneration Committee meets at least twice a year and reports to the Bank Supervisory Board.

The functions of the Remuneration Committee include determining the terms and conditions of employment of the members of the Bank Management Board and other top executives, and from time to time assessing their performance. The Remuneration Committee reviews the recommendation of the CEO on total bonus pool for the Bank's employees as well as the individual bonuses for the Bank Management Board and certain executive officers.

The members of the Remuneration Committee are: Al Breach (Chairman), Neil Janin and David Morrison.

Remuneration and Benefits

The aggregate remuneration of the Bank Management Board and the Bank Supervisory Board was GEL 10.7 million (US$6.5 million) for the year ended 31 December 2012. The amount of remuneration paid to members of the Bank Supervisory Board is determined by the GMS. The remuneration of the Bank Management Board is determined by the Bank Supervisory Board.

The level of compensation for members of the Bank Supervisory Board and committees was approved on 9 February 2012. The non-independent members of the Supervisory Board (shareholder representatives) do not receive compensation for their services on the Supervisory Board or Committees. The approved levels of compensation for members of the Bank Supervisory Board are set out in the following table:

Member of the Bank Supervisory Board	Approved gross annual compensation
	(US$)
Chairman of the Bank Supervisory Board	107,500
Vice-chairman of the Bank Supervisory Board	40,000
Member of the Bank Supervisory Board[1]	30,000

Note:
[1] Non-independent directors are not entitled to remuneration for their role as members of the Bank Supervisory Board.

In addition to the above compensation, all the members of the committees, with the exception of the chairman of such committee, receive compensation for the committee membership as follows:

Member of Committee	Approved gross annual compensation
	(US$)
Chairman of the Audit Committee	15,000
Member of the Audit Committee	11,000
Chairman of other committees	11,000
Member of other committees	7,500

Note:
[1] Neither the Chairman of the Bank Management Board nor any non-independent directors are entitled to remuneration for their role as members of any committee.

Compensation is payable to the Bank Supervisory Board and committee members quarterly.

With the recommendation of the Bank Remuneration Committee and approval of the BGH Remuneration Committee, the Bank Supervisory Board determines on an annual basis the amount of the bonus of the members of the Bank Management Board. In November 2010 the Bank Supervisory Board adopted a Senior Executive Compensation Policy for Bank of Georgia's Chief Executive Officer, the Deputy CEOs and certain of the Group's executive officers. In 2010, the Bank Supervisory Board approved a compensation policy for the Bank's Chief Executive Officer, Deputy Chief Executive Officers and certain of the Group's executive officers, which was effective for three compensation years ending January 2013. The compensation policy adopted in 2010 envisaged relevant employees receiving guaranteed and discretionary grants of securities, rather than cash-bonuses which have been entirely abandoned. In 2012, the Supervisory Board evaluated and re-confirmed the management compensation policy adopted in 2010 (the "**Compensation Policy**"). As a result, according to the Compensation Policy, executive compensation comprises:

(i) competitive fixed cash salaries;

(ii) fixed contingent deferred share compensation, consisting of annual awards of nil-cost options over such number of shares in BGH as stipulated in the executive's service agreement; where awards vest over the five-year period that follows the beginning of the work year in which the share award is granted (i.e., 0% of the options vest in the first year following the work year, 20% of the options vest in each of the second, third and fourth years following the work year, and 40% of the options vest in the fifth year following the work year); and

(iii) discretionary contingent deferred share compensation in the form of annual awards of nil-cost options over such number of shares in BGH as is determined annually by the Supervisory Board in its sole discretion, based on the performance of the Bank and the executive; where awards vest over a two-year period following the end of the work year (i.e., 50% of the options vest at the beginning of the second and third years following the work year).

According to the Compensation Policy, there are no cash bonuses for executives. The service agreements of the Chief Executive Officer and the members of Management Board have also been extended through 2016. See "*the Management and Employees —Bank Management Board*."

The stock and cash bonuses for the other executive officers and senior employees of the Bank are determined by the CEO of the Bank and agreed with the Bank Remuneration Committee and the Bank Supervisory Board on an annual basis, as well as agreed with and subject to the approval of the BGH Remuneration Committee. The Bank has the option to implement one-year deferments of a portion of the cash bonus with regard to its key employees. In the case of deferment, such deferred portions of the cash bonus are invested in BGH's and/or the Group's shares, debt securities or placed on deposit with the Bank, with the employees entitled to any capital gains, dividend income or interest income from such instruments. The stock bonuses are usually subject to three-year straight line vesting periods.

The table below sets out the aggregate amount of the salaries, share-based compensation and other benefit expenses (including any contingent or deferred compensation) incurred by the Group in respect of services provided by members of the Bank Supervisory Board and Bank Management Board for the year ended 31 December 2012:

	For the year ended 31 December 2012	
	(thousands of Lari) *(unaudited)*	*U.S.$ figures are not audited* *(unaudited)*
Salaries and other benefits	2,656	1,603
Share-based payments compensation	8,048	4,857
Social security costs	24	14
Total	10,728	6,474

Loans to Management

Net loans issued to Management Board members of the Bank and outstanding as of 31 December 2012, 2011 and 2010 totalled GEL 5.2 million (US$3.1 million), GEL 6.7 million, and GEL 4.6 million, respectively.

Interests of Supervisory Board, Management Board and Senior Managers

The following table sets out the direct and indirect shareholdings and stock options in the shares of BGH held by members of the Bank Supervisory Board and the Bank Management Board and the Bank's Senior Managers as of the date of this Prospectus

Holders	**Number of shares and nil-cost options over shares (awarded and vested)**	**Number of shares and nil-cost options over shares (awarded but not yet vested)**
Bank Supervisory Board		
Neil Janin	25,729	—
David Morrison	26,357	—
Allan Hirst	60,434	—
Ian Hague	5,112	—
Kaha Kiknavelidze	26,337	—
Hanna Loikkanen	2,616	—
Alasdair (A1) Breach	14,279	—
Bank Management Board		
Irakli Gilauri	60,831	323,000
Nikoloz Gamkrelidze	—	66,417
Avtandil (Avto) Namicheishvili	50,000	116,500
Mikheil Gomarteli	35,000	101,500
Archil Gachechiladze	—	115,000
Sulkhan Gvalia	45,803	93,000
Irakli Burdiladze	—	88,500
Giorgi (George) Chiladze	82,000	51,000
Senior Managers		
Murtaz Kikoria	37,000	89,000
Mariam (Macca) Ekizashvili	13,934	22,666
David Vakhtangishvili	47	24,334

There are no potential conflicts of interest between any duties of the members of the Bank Supervisory Board, the Bank Management Board or the Senior Managers of the Bank towards the Bank and their private interests and/or other duties.

Litigation Statement

As of the date of this Prospectus, no member of the Bank Management Board or Supervisory Board or Executive Officer for at least the previous five years:

- has any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of a company.

Employees

As of 30 June 2013, 31 December 2012, 2011 and 2010 the Group had a total of 11,507, 11, 095, 7,301, and 5,610 full-time employees, respectively, of which 9,669, 6,801, and 5,124, respectively had standard employee agreements.

The following table sets out the Group's employees by subsidiary and by segment as of 30 June 2013

Subsidiary and segment	**Number of all full-time employees**
Bank of Georgia	**3,734**
Corporate Centre	2,508
Retail Banking	1,087
Corporate Banking	108
Investment Management	31
ABCI	**491**
Corporate Centre	370
Retail Insurance	62
Corporate Insurance	59
BNB	**320**
Corporate Centre	130
Retail Banking	97
Corporate Banking	93
Other subsidiaries total	**6,550**
Total Excluding Duplication	**11,095**

The Bank places significant emphasis on the professional development of its employees. The Bank's employees are offered training opportunities at special training centres and various educational institutions. Middle and high level managers participate in workshops and training sessions outside of Georgia and internal training is conducted by instructors invited from Georgian training centres.

The Bank first signed an agreement with an employee trade union in 2001. The next employee trade union agreement was executed in 2004 for a term of four years. Upon expiration of the latter, the Bank executed a one-year employee trade union agreement on 1 January 2009. On 16 April 2010, the Bank entered into a new one-year employee trade union agreement. The principal terms of this agreement required the Bank to observe the provisions of the labour law, to consider trade union proposals and upon an employee's request, deduct trade union membership fees from his or her salary for payment to the trade union. The agreement expired on 16 April 2011 and has not been renewed since then.

Bank of Georgia is required to withhold income tax at the flat rate of 20.0% on the gross compensation of its employees in Georgia as well as on certain type of business income of natural persons. There are no other mandatory contributions.

In line with the recent amendments to the Labour Code, the Bank has begun to renew employment contracts with its employees to bring these new contracts in line with the new mandatory requirements of the Labour Code. The adjustments made to the standard employment contracts are related to the duration of the contracts, maximum working hours (up to 40 hours per week, with the rest of work hours being overtime work), grounds for termination of employment (not allowing the termination of employment by the employer without cause), and the amount of severance payments in certain cases of termination (equal to up to two months' salary).

Pensions

Every employee contributes 1.0% of his/her salary to a pension fund and the Group matches the employee's contribution to the pension fund. The Group matches on a 0.2 to 1 basis additional employee pension fund contributions up to 1.0% of the employee's gross monthly salary. In addition to a pension fund, each full-time employee of the Group receives health insurance, is permitted to use an overdraft of up to 90% of his or her salary, may benefit from certain discounts on banking products and may be eligible to receive an annual bonus, subject to the Group's annual profit and the employee's performance.

SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Shareholders

The following table sets forth information regarding the ownership of the shares as of 31 December 2012.

	Shares Owned	
Owner	**Number**	**%**
Bank of Georgia Holdings PLC	35,909,383	99.61%
Others	139,577	0.39%
Total shares outstanding as of 31 December 2012[(1)]	**36,048,960**	**100.00%**

Note:

(1) For the purposes of calculating percentage of shareholding, the total shares outstanding exclude 463,590 of treasury shares held by the Bank as of 31 December 2012.

In December 2011, BGH, a public limited liability company newly incorporated in England and Wales, launched the Tender Offer to acquire the entire issued and to be issued share capital, including those shares represented by GDRs, of the Bank. Following the successful completion of the Tender Offer, BGH holds 99.61% of the share capital of the Bank as of 30 June 2013. The remaining 0.39% of the share capital of the Bank is held by several hundred individual shareholders (natural persons who are primarily Georgian citizens), none of whom owns 0.05% or more of the issued shares of the Bank.

As of 30 September 2013, the shareholders of record of BGH were:

Name of the shareholders	Amount disclosed	% of total
Franklin Templeton Investments	2,754,518	7.7%
Firebird Management LLC	2,454,998	6.8%
International Finance Corporation	1,817,503	5.1%
European Bank for Reconstruction and Development	1,817,503	5.1%
Harding Loevner Management LP	1,295,460	3.6%
Wellington Management Company	1,188,144	3.3%
Bank of Georgia Holdings PLC ESOP[1]	1,752,481	4.9%
Other BGH shareholders[2]	22,828,776	63.5%
Total BGH shares	**35,909,383**	**100.0%**

Notes:

(1) The shares allocated to the Bank's share-based employee compensation plans, of which options with respect to 1,260,635 shares have been granted to members of the Bank's Management Board and other senior executives of the Group.

(2) Includes 1,201,634 shares held by members of the Bank Supervisory Board and Bank Management Board members and other employees of the Bank.

None of the Bank's shareholders have voting rights different from any other holders of shares.

Related Party Transactions

In the ordinary course of its business, the Bank has engaged, and continues to engage, in transactions with related parties. Related parties include, among others, shareholders, all managers and senior personnel of the Bank, companies affiliated with the Bank and certain shareholders and managers of such affiliated companies. Furthermore, parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions or if such parties are under common control.

The Law of Georgia on Securities Market ("**Securities Law**") sets certain approval and transparency requirements for transactions in which the members of the governing bodies of a reporting company and direct or indirect owners of 20% or more of its shares are regarded as "**Interested Parties**" (such cases are defined in the Securities Law). According to the Securities Law, a transaction involving Interested Parties shall be approved by the Bank Supervisory Board or the GMS. For transactions exceeding 10% of the value of the assets of the company, such transactions shall be approved by the GMS. The Bank seeks to conduct all related party transactions on market terms and at market prices.

According to the Charter of the Bank, any transaction with related parties of the Bank shall be subject to the prior approval of the Bank Supervisory Board if the value of such transaction does not exceed 50% of the assets of the Bank. If the value of such transaction exceeds 50% of the assets of the Bank, the transaction shall be approved by the GMS.

The Supervisory Board is not permitted to delegate its authority to other bodies without the consent of the shareholders. In June 2007, the shareholders of the Bank consented to the Bank Supervisory Board's delegation to the Bank Management Board and/or respective committees of the authority to approve related party transactions, provided that (a) the cumulative value of the transaction(s) with any single related party does not exceed 1% of the regulatory capital of the Bank and (b) the members of the Bank Management Board and/or respective committee shall not participate or vote in any discussions regarding any transaction where such member has a conflict of interest. In October 2008, the Bank Supervisory Board delegated to the Bank Management Board and the Credit Committees the right to approve related party transactions in accordance with the Charter, provided that the Credit Committees are only authorised to approve transactions not exceeding US$500,000 or its equivalent per single related party. Pursuant to a decision dated 14 June 2010, the Bank Supervisory Board approved a new structure and a new set of regulations for the Credit Committee, including limits for the approval of loans to insiders. According to this decision, the newly approved limit per single insider individual requiring the Bank Supervisory Board's approval is US$300,000 and the limit per single insider legal entity requiring the Bank Supervisory Board's approval is US$1.0 million. According to the same decision of the Bank Supervisory Board, decisions on the insider deals below the above-mentioned limits should be approved by the Credit Committee.

From 2008 through 2011, the NBG has investigated several related party transactions, including those transactions involving the Bank's shareholders and the associates of the Group. The findings of such investigations did not result in any fines or sanctions from the regulator.

The following tables show volumes of related party transactions, outstanding balances at the period end and related party expense and income for the periods indicated. For further details of certain transactions, see Note 34 (*Related Party Disclosures*) to the Audited Financial Statements as of and for the year ended 31 December 2012.

	Six months ended 30 June			Years ended 31 December								
	2013			2012			2011			2010		
	Share-holders	Associates	Senior Managers	Share-holders	Associates	Senior Managers	Share-holders	Associates	Senior Managers	Share-holders	Associates	Senior Managers
		(audited) (*thousands of Lari*)						*(audited)* (*thousands of Lari*)				
Loans outstanding as of 1 January gross	**13,033**	—	**5,136**	—	**304**	**6,558**	—	**2,191**	**4,758**	—	**9,255**	**5,791**
Loans issued during the year	—	—	1,114	13,033	—	7,457	—	954	7,951	—	624	7,125
Loans repayments during the year	—	—	(1,416)	—	(259)	(8,389)	—	(5,493)	(6,663)	—	(707)	(6,877)
Other movements	(730)	—	(4,269)	—	(45)	(490)	—	2,652	512	—	(6,981)	(1,281)
Loans outstanding as of 31 December, gross	**12,303**(1)	—	**565**(1)	**13,033**(1)	—	**5,136**	—	**304**	**6,558**	—	**2,191**	**4,758**
Less: Allowance for impairment as of end of period	—	—	(6)	—	—	76	—	2	115	—	(1,564)	(119)
Loan outstanding as of 31 December net	**12,303**(1)	—	**559**(1)	**13,033**(1)	—	**5,212**	—	**306**	**6,673**	—	**627**	**4,639**
Interest income on loans	—	—	78	—	14	640	—	870	718	—	344	611
Loan impairment charge	—	—	(46)	—	—	(1)	—	2	32	—	661	65
Deposits as of 1 January	**11,636**	**17**	**9,681**	—	**171**	**5,903**	**36,410**	**726**	**8,999**	**12,098**	**506**	**6,919**
Deposits received during the year	2,330	54	8,448	—	11,040	28,561	35,365	24,660	21,574	41,646	16,185	36,658
Deposits repaid during the year	(3,609)	(54)	(6,920)	—	(11,191)	(25,264)	(32,147)	(25,229)	(22,254)	(16,851)	(16,127)	(33,522)
Other movements	(148)	(17)	(4,463)	—	(3)	481	(2,898)	14	(2,416)	(483)	162	(1,056)
Deposits as of 31 December	**10,209**(1)	—(1)	**6,746**(1)	—	**17**	**9,681**	**36,730**	**171**	**5,903**	**36,410**	**726**	**8,999**
				—								
Interest expense on deposits	(325)	—	(210)	—	(26)	(612)	(3,019)	(33)	(441)	(1,681)	(68)	(471)
Other income	—	—	53	—	—	121	693	—	78	1,671	—	69

Note:
(1) Deposits and loans as of 30 June 2013.

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions in the form in which they will be endorsed on the Notes:

The issue of US$150,000,000 7.75 per cent. Notes due 2017 (the "**Further Notes**") will be consolidated and form a single series with the US$250,000,000 7.75 per cent. Notes due 2017 issued on 5 July 2012 (the "**Existing Notes**", and, together with the Further Notes, the "**Notes**", which expression shall include any further notes issued pursuant to Condition 18 (*Further Issues*) and consolidated and forming a single series therewith)) and was authorised by a resolution of the Supervisory Board of Joint Stock Company Bank of Georgia (the "**Issuer**") passed on 30 September 2013. The Notes are constituted by a Trust Deed (the "**Trust Deed**", which expression includes any such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 5 July 2012, as amended and restated by a supplemental trust deed to be dated on or around 6 November 2013, between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**" which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes. These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes. Copies of the Trust Deed, and of the Agency Agreement (the "**Agency Agreement**", which expression includes any such agency agreement as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 5 July 2012, as amended and restated by a supplemental agency agreement to be dated on or around 6 November 2013, relating to the Notes between the Issuer, the Trustee, the transfer agent (the "**Transfer Agent**"), the registrar (the "**Registrar**"), Citibank N.A., London Branch as the initial principal paying agent and any other agents named in it, are available for inspection during usual business hours at the principal office of the Trustee (presently at Citigroup Centre, 13th Floor, Canada Square, London E14 5LB, United Kingdom) and at the specified offices of the principal paying agent for the time being (the "**Principal Paying Agent**"), the Transfer Agent and the Registrar. "**Agents**" means the Principal Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed from time to time with respect to the Notes. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those applicable to them of the Agency Agreement.

All capitalised terms that are not defined in these terms and conditions (the "**Conditions**") will have the meanings given to them in the Trust Deed, the absence of any such meaning indicating that such term is not applicable to the Notes.

1. FORM, SPECIFIED DENOMINATION AND TITLE

The Notes are issued in registered form, without interest coupons attached, and shall be serially numbered. Notes, whether sold (i) in offshore transactions in reliance on Regulation S under the US Securities Act of 1933, as amended (the "**Securities Act**") or (ii) to QIBs (as defined in the Trust Deed) in reliance on Rule 144A under the Securities Act, will be issued in the denominations of US$200,000 or any amount in excess thereof which is an integral multiple of US$1,000.

The Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Notes by the same holder.

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar outside the United Kingdom in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" and "**holder**" means the person in whose name a Note is registered.

2. TRANSFERS OF NOTES

(a) **Transfer**: One or more Notes may be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Notes to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Notes and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement (the "**Regulations**"). The Regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current Regulations will be made available by the Registrar to any Noteholder upon request.

(b) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Condition 2(a) shall be available for delivery within three business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/ or such insurance as it may specify. In this Condition 2(b), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(c) **Transfer or Exercise Free of Charge**: Certificates, on transfer, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(d) **Closed Periods**: No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(b), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3. STATUS

The Notes constitute (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank pari passu and without any preference among themselves. The Issuer shall ensure that at all times the claims against it under the Notes and the Trust Deed rank at least pari passu in right of payment with the claims of all other unsubordinated creditors of the Issuer (subject to Condition 4(a)), save for those claims that are preferred by mandatory provisions of applicable law (including, without limitation, liabilities in respect of deposits).

4. COVENANTS

(a) **Negative Pledge**: So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer shall not, and shall not permit any of its Material Subsidiaries to, directly or indirectly, create, incur or suffer to exist any Security Interests, other than Permitted Security Interests, on or over any of its or their assets, now owned or hereafter acquired, securing any Indebtedness or any Guarantee of any Indebtedness, unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Trust Deed are secured equally and rateably with such other Indebtedness or Guarantee of Indebtedness or have the benefit of such security or other arrangements, as the case may be, as are satisfactory to the Trustee, or are approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

(b) **Continuance of Business, Maintenance of Authorisations and Legal Validity**:

(i) The Issuer shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary to ensure the continuance of its corporate existence (except as otherwise permitted by Condition 4(c) (*Mergers*)), and its business and the use of all material intellectual property relating to its business and the Issuer shall take all necessary action to obtain and do or cause to be done all things necessary to ensure the continuance of all consents, licences, approvals and authorisations necessary in that regard.

(ii) The Issuer shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of Georgia to enable it lawfully to perform its obligations under the Notes and the Trust Deed and ensure the legality, validity, enforceability or admissibility in evidence in Georgia of the Notes and the Trust Deed.

(c) **Mergers**: The Issuer shall not, without the prior written consent of the Trustee, (x) enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation) or undergo any other type of corporate reconstruction or (y) in a single transaction or a series of related transactions, directly or indirectly, consolidate or merge, or sell, convey, transfer, lease or otherwise dispose of, all or substantially all of the Issuer's properties or assets (determined on a consolidated basis), unless, in any case:

(i) immediately after the transaction referred to in (x) or (y) above:

(A) the resulting or surviving person or the transferee (the "**Successor Entity**") shall be the Issuer or, if not the Issuer, the Successor Entity shall expressly assume by a deed supplemental to the Trust Deed in form and substance satisfactory to the Trustee, executed and delivered to the Trustee, all the rights and obligations of the Issuer under the Notes and the Trust Deed;

(B) the Successor Entity (if not the Issuer) shall retain or succeed to all of the rights and obligations of the Issuer under all of its material governmental permits, licences, consents and authorisations and shall be in compliance with all material regulatory requirements in each of the jurisdictions in which it operates;

(ii) no Event of Default or Potential Event of Default shall have occurred and be continuing or result therefrom; and

(iii) the relevant transaction referred to in (x) or (y) above does not result in a Material Adverse Effect.

(d) **Disposals**: Except as otherwise permitted by these Conditions and without prejudice to the provisions of Condition 4(c) (*Mergers*) and Condition 4(e) (*Transactions with Affiliates*), the Issuer shall not, and shall ensure that none of its Material Subsidiaries will, sell, convey, transfer, lease or otherwise dispose of, to a Person other than the Issuer or a Subsidiary of the Issuer, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or assets, unless (i) each such transaction is on arm's-length terms for Fair Market Value; and (ii) with respect to any such transaction providing for a disposal of revenues or assets constituting more than 10 per cent. of the total consolidated assets of the Group determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period, the Issuer shall, prior to the disposal, provide the Trustee with a written opinion from an Independent Appraiser to the effect that the transaction is at Fair Market Value and fair, from a financial point of view, to the Issuer and/or the relevant Subsidiary, as the case may be.

This Condition 4(d) shall not apply to (i) any transaction between the Issuer and any of its wholly-owned Subsidiaries, (ii) any sale, lease, transfer or other disposal of any assets or property (including cash and securities) constituting a Permitted Security Interest or (iii) any present or future assets or revenues or any part thereof that are the subject of any securitisation or any receivables, asset-backed financing or similar financing structure and whereby all payment obligations are to be discharged solely from such assets or revenues, provided that the value of such assets or revenues, which are the subject of the relevant financing structure when aggregated with the value of all assets or revenues subject to a Security Interest permitted under paragraph (g) of the definition of "Permitted Security Interests", does not, at any time, exceed 25 per cent. of the Issuer's loans and advances to customers, determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period.

(e) **Transactions with Affiliates**:

(i) The Issuer shall not, and shall ensure that none of its Material Subsidiaries will, directly or indirectly, conduct any business, enter into or permit to exist any transaction (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**"), including inter-company loans, unless the terms of such Affiliate Transaction are (taking into account the standing and credit rating of the relevant Affiliate) no less favourable to the Issuer or such Material Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction for Fair Market Value with a Person that is not an Affiliate of the Issuer or any of its Material Subsidiaries.

(ii) With respect to an Affiliate Transaction or a series of related Affiliate Transactions involving aggregate payments or value in excess of 2 per cent. of the total consolidated assets of the Group determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period, the Issuer shall, prior to the relevant Affiliate Transaction, deliver to the Trustee a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction (or series of Affiliate Transactions) is at Fair Market Value and is fair from a financial point of view to the Issuer or the relevant Material Subsidiary, as the case may be.

(iii) The following items shall not be deemed to be Affiliate Transactions and therefore shall not be subject to the provisions of (i) and (ii) above:

(A) any employment agreement entered into by a member of the Group in the ordinary course of business and consistent with the past practice of such member of the Group;

(B) transactions between or among the Issuer and its wholly-owned Subsidiaries;

(C) payment of reasonable directors fees to Persons who are not otherwise Affiliates of the Issuer;

(D) a Restricted Payment permitted to be made pursuant to Condition 4(g) (*Restricted Payments*); and

(E) any non-interest bearing loans from any member of the Group to the Holding Company, provided that the aggregate amount outstanding under all such non-interest bearing loans shall not, at any time, exceed US$10,000,000.

(f) **Payment of Taxes and Other Claims**: The Issuer shall, and shall ensure that its Material Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue all Tax, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of, the Issuer and/or its Material Subsidiaries, provided that neither the Issuer nor any Material Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such Tax, assessment, charge or claim (a) the amount, applicability or validity of which is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made or (b) the amount of which, together with all such other unpaid or undischarged Tax, assessments, charges and claims, does not in the aggregate exceed US$2,000,000.

(g) **Restricted Payments**: The Issuer shall not, and shall procure and ensure that each of its Subsidiaries will not, (a) declare or pay any dividend in cash or otherwise or make any other distribution (whether by way of redemption, acquisition or otherwise) in respect of its share capital, other than dividends or distributions payable to the Issuer or any of its Subsidiaries (and, if a Subsidiary is not a wholly-owned Subsidiary of the Issuer, to the other holders of its share capital on a pro rata basis); or (b) directly or indirectly voluntarily purchase, redeem or otherwise retire for value any Capital Stock of the Issuer or, prior to scheduled maturity or scheduled repayment, subordinated debt (except for the repayment of inter-company debt owed by any Subsidiary of the Issuer to the Issuer or to any other Subsidiary of the Issuer from time to time) (any such action in (a) or (b) being, a "**Restricted Payment**"), if:

(i) at the time of such payment an Event of Default or Potential Event of Default has occurred and is continuing or would result therefrom;

(ii) such Restricted Payment, when aggregated with all other Restricted Payments previously made since 31 December 2011, exceeds the sum of:

(a) 50 per cent. of the Issuer's consolidated net profit (calculated in accordance with IFRS) aggregated on a cumulative basis during the period beginning on 31 December 2011 and ending on the last day of the immediately preceding fiscal year or semi-annual financial period; and

(b) 100 per cent. of the aggregate net cash proceeds received by the Issuer subsequent to 31 December 2011 from the issuance or sale of its Capital Stock and the conversion or exchange subsequent to 31 December 2011 of any Indebtedness of the Issuer into or for Capital Stock of the Issuer; or

(iii) such Restricted Payment would cause or result in a breach of one or more of the covenants contained in Condition 4(m) (*Financial Covenants*);

(h) **Indebtedness**: The Issuer shall not permit any of its Material Subsidiaries to create, incur, assume or otherwise become liable in respect of any Indebtedness, other than:

(i) any Indebtedness owing to the Issuer or a wholly-owned Subsidiary of the Issuer;

(ii) any Indebtedness incurred to finance the business of any Subsidiary which is not a Banking Entity, provided that the aggregate principal amount of all such Indebtedness permitted under this paragraph (ii) does not at any time exceed 20 per cent. of the total consolidated assets of the Group determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period;

(iii) any Indebtedness incurred to finance the business of any Subsidiary which is a Banking Entity, provided that such Subsidiary shall at all times:

(A) comply with prudential supervision ratios and other requirements of the relevant national banking supervision authority, except to the extent that (a) failure to comply could not be reasonably expected to have a Material Adverse Effect and (b) such relevant national banking supervision authority has agreed to take no action as result of or otherwise waived such non-compliance;

(B) maintain a ratio of its Capital to Risk Weighted Assets of not less than 12 per cent.;

(C) maintain a ratio of its Tier 1 Capital to Risk Weighted Assets of not less than 8 per cent.; and

(D) maintain a ratio of its Exposure to any Single Party to Capital of not more than 25 per cent;

(iv) any Indebtedness of any Subsidiary of the Issuer in existence on the Issue Date; and

(v) Indebtedness incurred by any single-purpose financing Subsidiaries whose activities (other than insignificant ancillary activities) are restricted to the raising of financing to be substantially on-lent to the Issuer, whose obligations are guaranteed by the Issuer and which do not hold any significant assets other than loans and associated assets resulting from its on-lending activities to the Issuer.

(i) **Financial Information**:

(i) The Issuer hereby undertakes that it will deliver to the Trustee within 120 days after the end of each of its financial years, copies of the Issuer's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied with corresponding financial statements for the preceding period and together with the report of the Auditors thereon.

(ii) The Issuer hereby undertakes that it will deliver to the Trustee within 60 days after the end of the second quarter of each of its financial years, copies of the Issuer's unaudited consolidated financial statements for six months, prepared in accordance with IFRS consistently applied with corresponding financial statements for the preceding period.

(iii) The Issuer hereby undertakes that it will deliver to the Trustee, upon request and without delay, such additional information regarding the financial position or the business of the Issuer, any of its Subsidiaries and/or the Group as the Trustee may request.

(j) **Maintenance of Property**: The Issuer will and shall procure that its Material Subsidiaries will, cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgement of the Issuer or any such Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times.

(k) **Maintenance of Insurance**: The Issuer shall, and shall procure that its Material Subsidiaries will, keep those of their properties which are of an insurable nature insured with insurers, believed by the Issuer or such Material Subsidiary to be of good standing, against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated and owning like properties in the same jurisdiction.

(l) **Compliance with Applicable Laws**: The Issuer will at all times comply, and shall procure that each of its Material Subsidiaries complies at all times, in all material respects with all provisions of applicable laws, including directives of governmental authorities and regulations.

(m) **Financial Covenants**: The Issuer shall (except as otherwise specifically provided or agreed by the Trustee) at all times:

(i) comply with prudential supervision ratios and other requirements of the NBG, except to the extent that (a) failure to comply could not be reasonably expected to have a Material Adverse Effect and (b) the NBG agrees to take no action as result of or otherwise waives the specific non-compliance in question;

(ii) maintain a ratio of its Capital to Risk Weighted Assets of not less than 12 per cent.;

(iii) maintain a ratio of its Tier 1 Capital to Risk Weighted Assets of not less than 8 per cent.; and

(iv) maintain a ratio of its Exposure to any Single Party to Capital of not more than 25 per cent.,

determined by reference, in the case of (ii), (iii) and (iv) above, to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period

(n) **Change of Business**: The Issuer shall procure that no material change is made to the general nature of the business of the Group, taken as a whole, from that carried on at the Issue Date.

5. INTEREST

Each Note bears interest from and including the Issue Date at the rate of 7.75 per cent. per annum payable semi-annually in arrear on 5 January and 5 July in each year (each an "**Interest Payment Date**"), commencing on 5 January 2013. Each Note will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Note, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than one year/a complete Interest Period (as defined below), the relevant day–count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

6. REDEMPTION AND PURCHASE

(a) **Final Redemption**: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 5 July 2017. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition.

(b) **Redemption for Taxation and Other Reasons**: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of Georgia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Trustee a certificate signed by two members of the Issuer's management board stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders.

(c) **Purchase**: The Issuer and its Subsidiaries (as defined in the Trust Deed) may at any time purchase Notes in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 12(a).

(d) **Cancellation**: All Certificates representing Notes purchased by or on behalf of the Issuer (provided the aggregate principal amount of such Notes is not less than US$1,000,000) may be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Notes shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7. PAYMENTS

(a) **Method of Payment**:

(i) Payments of principal shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Notes represented by such Certificates) in the manner provided in paragraph (ii) below.

(ii) Interest on each Note shall be paid to the person shown on the Register at the close of business on the Business Day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Note shall be made in the relevant currency by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.

(iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Noteholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

(b) **Payments subject to Fiscal Laws**: All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment. No commission or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Payment Initiation**: Where payment is to be made by transfer to an account in the relevant currency, payment instructions (for value the due date, or if that is not a Business Day, for value the first following day which is a Business Day) will be initiated, and, where payment is to be made by cheque, the cheque will be mailed, on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

(d) **Appointment of Agents**: The Principal Paying Agent, the Registrar, and the Transfer Agents initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Registrar, and the Transfer Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Agent, the Registrar, or any Transfer Agent and to appoint additional or other Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) a paying and transfer agent with a specified office in a member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to confirm to such Directive (to the extent not already maintained pursuant to this Condition 7(d), and (v) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case, as approved by the Trustee.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(e) **Delay in Payment**: Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a Business Day, if the Noteholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 7(a)(ii) arrives after the due date for payment.

(f) **Non-Business Days**: If any date for payment in respect of any Note is not a Business Day, the holder shall not be entitled to payment until the next following Business Day nor to any interest or other sum in respect of such postponed payment.

8. TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Georgia or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note presented for payment:

(a) **Other connection**: by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Georgia other than the mere holding of the Note;

(b) **Exemption**: by or on behalf of a holder who is able to avoid such taxes, duties, assessments or governmental charges in respect of such Note by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority;

(c) **Surrender more than 30 days after the Relevant Date**: more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the Certificate representing such Note for payment on the last day of such period of 30 days;

(d) **Payment to individuals**: where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) **Payment by another Transfer Agent**: by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Transfer Agent in a member state of the European Union.

"**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further surrender of the Certificate representing such Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

9. EVENTS OF DEFAULT

If any of the following events ("**Events of Default**") occurs and is continuing the Trustee at its discretion may, and if so requested by holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (provided that the Trustee shall have been indemnified to its satisfaction), give written notice to the Issuer that the Notes are, and they shall immediately become, due and payable at 100 per cent of their principal amount together (if applicable) with accrued interest:

(a) **Non-Payment**: the Issuer fails to pay the principal of, any interest or any other sum due on any of the Notes or due pursuant to the Trust Deed when due and such failure to pay is not remedied within five days of the due date for payment; or

(b) **Breach of Other Obligations**: the Issuer does not perform or comply with any one or more of its other obligations (other than those in Condition 9(a)) in the Notes or the Trust Deed which default is incapable of remedy or, in the opinion of the Trustee it is capable of remedy and it is not remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee; or

(c) **Cross-Default**: (i) any other present or future Indebtedness of the Issuer or any Material Subsidiary for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any event of default (howsoever described), or (ii) any such Indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or any Material Subsidiary fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness provided that the aggregate amount of the relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred equals or exceeds US$20,000,000 or its equivalent in any other currency (as reasonably determined by the Trustee); or

(d) **Insolvency**:

(i) the occurrence of any of the following events: (i) the Issuer or any Material Subsidiary seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment to it of a liquidation commission, temporary administration or a similar officer; (ii) the presentation or filing of a petition in respect of the Issuer or any Material Subsidiary in any court, arbitration court or before any Agency alleging its or for its bankruptcy, insolvency, dissolution or liquidation or adoption of any resolution by any Agency in respect of any of the foregoing, except, in the case of any presentation or filing of a petition, where such presentation or filing is (a) initiated by any Person which is not a member of the Group or a Holding Company of any member of the Group; and (b) discharged or dismissed within 60 days from the date of presentation or filing; (iii) the institution of supervision, temporary administration, external management, liquidation, rehabilitation or bankruptcy management to the Issuer or any Material Subsidiary; (iv) the convening of a meeting of creditors of the Issuer or any Material Subsidiary for the purposes of considering an amicable settlement; and/or (v) any extra-judicial liquidation or analogous act in respect of the Issuer or any Material Subsidiary by any Agency in or of Georgia; or

(ii) the Issuer or any Material Subsidiary: (i) fails or is unable to pay its debts generally as they become due; (ii) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or to the appointment of a custodian of it or of a substantial part of its property; or (iii) an Agency or court of competent jurisdiction declares the Issuer to be insolvent or bankrupt or enters an order for relief or a decree in an involuntary case in bankruptcy or for the appointment of a custodian in respect of the Issuer or any Material Subsidiary or any part of their respective property; or

(iii) the shareholders of the Issuer approve any plan for the liquidation or dissolution of the Issuer; or

(e) **Unsatisfied Judgments, Governmental or Court Actions**: the aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law enforcement bodies for the payment of money against the Issuer or any Material Subsidiary exceeds US$20,000,000 or the equivalent thereof in any other currency or currencies, or any such unsatisfied judgment, decree or order results in (a) the management of the Issuer or any Material Subsidiary being wholly or partially displaced or the authority of the Issuer or any Material Subsidiary in the conduct of its business being wholly or partially curtailed, (b) all or a majority of the issued shares of the Issuer or any Material Subsidiary or the whole or any part (the book value of which is 20 per cent. or more of the book value of the whole) of its revenues or assets being seized, nationalised, expropriated or compulsorily acquired or (c) the Issuer's banking licence being revoked; or

(f) **Analogous Events**: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Condition 9(d) (*Insolvency*) and Condition 9(e) (*Unsatisfied Judgments, Governmental or Court Actions*); or

(g) **Execution and Distress**: any execution or distress is levied against, or an encumbrance takes possession of or sells, the whole or any material part of, the property, undertaking, revenues or assets of the Issuer or any Material Subsidiary; or

(h) **Authorisation and Consents**: any action, condition or thing (including the obtaining or effecting of any necessary consent, decree, approval, authorisation, exemption, filing, licence, order, recording, registration or other authority) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its material rights and perform and comply with its payment obligations under the Notes and the Trust Deed, its obligations under Condition 4 (*Covenants*) and its other material obligations under the Notes, the Trust Deed or the Agency Agreement, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes, the Trust Deed and the Agency Agreement admissible in evidence in the courts of England is not taken, fulfilled or done; or

(i) **Validity and Illegality**: the validity of the Notes, the Trust Deed or the Agency Agreement is contested by the Issuer or the Issuer denies any of its obligations under the Notes, the Trust Deed or the Agency Agreement or it is, or will become, unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes, the Trust Deed or the Agency Agreement or any of such obligations becomes unenforceable or ceases to be legal, valid and binding.

The Issuer has undertaken in the Trust Deed that it will promptly upon becoming aware of the same inform the Trustee of the occurrence of any Event of Default or event or circumstance that would, with the giving of notice, lapse of time and/or issue of a certificate, become an Event of Default (a "**Potential Event of Default**").

The Issuer has also undertaken in the Trust Deed that it shall within 14 days of its annual audited financial statements being made available to its members, within 14 days of each Interest Payment Date and also within 14 days of any request by the Trustee, send to the Trustee a certificate of the Issuer signed by any two of its Directors that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer as at a date (the "**Certification Date**") not more than five days before the date of the certificate no Event of Default or Potential Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it.

10. PRESCRIPTION

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

(a) **Meetings of Noteholders**: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes, inter alia, consideration of the following proposals: (i) to change any date fixed for payment of principal or interest in respect of the Notes; (ii) to reduce the amount of principal or interest payable on any date in respect of the Notes; (iii) to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment; (iv) to change the amount of principal and interest payable in respect of the Notes; (v) to sanction the exchange or substitution for the Notes of, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or any other entity; (vi) to change the currency of payments under the Notes; (vii) to change the quorum requirements relating to Noteholders' meetings or the majority required to pass an Extraordinary Resolution; (viii) to alter the governing law of the Conditions or the Trust Deed; (ix) to change any date fixed for payment of principal or interest on the Notes; (x) to alter the method of calculating the amount of any payment under these Conditions; or (xi) to change the currency of payment under these Conditions or, without prejudice to the rights under Condition 12(c) (Modification and Waiver) below, change the definition of "Events of Default" under these Conditions, in which case the necessary quorum will be two or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) **Modification of the Trust Deed and Waiver**: The Trustee may agree with the Issuer, without the consent of the Noteholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed, that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

(c) **Substitution**: The Trust Deed contains provisions permitting the Trustee to agree with the Issuer, subject to the conditions provided for in the Trust Deed and to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of any Subsidiary of the Issuer or its successor in business in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree with the Issuer, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders. Under the Trust Deed, the Trustee may agree or require the Issuer to use all reasonable endeavours to procure the substitution as principal debtor under the Trust Deed and the Notes of a company incorporated in some other jurisdiction in the event of the Issuer becoming subject to any form of tax on its income or payments in respect of the Notes, and provided that such substitution shall not at the time of substitution result in a downgrading of any rating assigned to the Notes.

(d) **Entitlement of the Trustee**: In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

13. ENFORCEMENT

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and the Notes, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding, and (b) it shall have been indemnified and/or pre-funded and/or secured to its satisfaction. No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14. INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

15. NOTICES

Notices to the holders of Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. DEFINITIONS

Expressions used in these Conditions shall have the following meanings:

"**Affiliate**" of any specified Person means (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (b) any other Person who is a director or officer of such specified Person, of any Subsidiary of such specified Person or of any other Person described in (a);

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Banking Entity**" means each of the Issuer and any of its Subsidiaries which is a bank;

"**BIS Guidelines**" means the guidelines on capital adequacy standards (including the constituents of capital included in the capital base, the risk weights by category for on-balance-sheet assets, the credit conversion factors for off-balance-sheet items, and the target standard ratio) for international banks contained in the July 1988 text of the Basle Capital Accord, published by the Basle Committee on Banking Supervision (as amended, updated or supplemented from time to time);

"**Business Day**" means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including in foreign exchange and foreign currency deposits) in New York City, London and Tbilisi and, in the case of presentation or surrender of a Certificate, in the place of the specified office of the Registrar or relevant Agent, to whom the relevant Certificate is presented or surrendered;

"**Capital**" means, in relation to any Banking Entity, the capital of such Banking Entity as defined in the BIS Guidelines;

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options or other interests in the nature of any equity interest (or any equivalent of any of the foregoing (however designated)) of, in or in relation to the share capital, equity and/or corporate stock of a Person, in each of the foregoing cases whether now outstanding or hereafter issued;

"**Exposure**" of a Banking Entity means:

(a) the aggregate principal or nominal amount (net of specific provisions for losses) owed to the Banking Entity, whether direct or contingent, by a counterparty, or, in the case of a Single Party, by a group of counterparties, in respect of money borrowed, equity or debt raised, Guarantees, letters of credit or debt instruments issued or confirmed and other off-balance sheet engagements in the ordinary course of the Banking Entity's corporate and retail lending business; less

(b) any such amount which is fully secured by rights of off-set against Liquid Assets in equivalent amounts and comparable maturities placed with the Banking Entity;

"**Fair Market Value**" of a transaction means the value that would be obtained in an arm's-length commercial transaction between an informed and willing seller (under no undue pressure or compulsion to sell) and an informed and willing buyer (under no undue pressure or compulsion to buy). A report of the Auditors of the Fair Market Value of a transaction may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall be conclusive and binding on the Noteholders;

"**Group**" means the Issuer and its Subsidiaries, from time to time, taken as a whole;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness;

"**Holding Company**" means any Person who (a) directly or indirectly controls the affairs and policies of the Issuer or (b) owns directly or indirectly more than 50 per cent. of the capital, voting stock or other right of ownership of the Issuer and "**Control**", as used in this definition, means the power to direct the management and the policies of the Issuer, whether through the ownership of share capital, by contract or otherwise;

"**IFRS**" means International Financial Reporting Standards (formerly International Accounting Standards), issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time);

"**IFRS Fiscal Period**" means any fiscal period for which the Issuer has produced consolidated financial statements in accordance with IFRS, which have either been audited or reviewed by the Auditors;

"**Indebtedness**" means, with respect to any Person at any date of determination (without duplication):

(a) all indebtedness of such Person for borrowed money;

(b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(c) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto), excluding any letters of credit, guarantees, or other similar instruments issued in the ordinary course of its insurance business;

(d) all obligations of such Person to pay the deferred and unpaid purchase price of property, assets or services;

(e) all capitalised lease obligations of such Person;

(f) all indebtedness of other Persons secured by Security Interests granted by such Person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet value of such asset in respect of the latest annual financial statements (calculated in accordance with IFRS) of the Person granting the Security Interest) of such Person, whether or not such indebtedness is assumed by such Person;

(g) all indebtedness of other Persons guaranteed or indemnified by such Person, to the extent such indebtedness is guaranteed or indemnified by such Person;

(h) any amount raised pursuant to any issue of Capital Stock which is expressed to be redeemable;

(i) any amount raised by acceptance under any acceptance credit facility;

(j) to the extent not otherwise included in the foregoing, net obligations under any currency or interest rate hedging agreements; and

(k) any amount raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing,

and the amount of indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations, as described above, and with respect to contingent obligations, as described above, the maximum liability which would arise upon the occurrence of the contingency giving rise to the obligation;

"**Independent Appraiser**" means an investment banking firm or third party expert in the matter to be determined of international standing selected by the Issuer and approved by the Trustee, provided that such firm or third party appraiser is not an Affiliate of the Issuer;

"**Issue Date**" means 5 July 2012;

"**Liquid Assets**" means the aggregate (as of the relevant date for calculation) of a Banking Entity's cash, demand and overnight deposits and other deposits with a maturity of not more than 30 calendar days, and marketable securities with a final maturity of less than one year issued or guaranteed by Georgia or any OECD government, or any province, subdivision or Agency thereof, and claims against the central bank or other authority to whose requirements the Banking Entity may be subject with a final maturity of less than one year;

"**Material Adverse Effect**" means a material adverse change in, or material adverse effect on, (a) the business, properties, condition (financial or otherwise), results of operations or prospects of the Issuer and/or the Group, (b) the Issuer's ability to perform its obligations under the Notes or the Trust Deed or (c) the validity or enforceability of Notes or the Trust Deed;

"**Material Subsidiary**" means any Subsidiary of the Issuer:

(a) which, for the most recent IFRS Fiscal Period, accounted for more than 5 per cent. of the consolidated revenues of the Group or which, as of the end of the most recent IFRS Fiscal Period, was the owner of more than 5 per cent. of the total consolidated assets of the Group, determined by reference to the consolidated financial statements of the Issuer prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period; or

(b) to which are transferred substantially all of the assets and undertakings of a Subsidiary of the Issuer which immediately prior to such transfer was a Material Subsidiary (with effect from the date of such transaction);

"**NBG**" means the National Bank of Georgia;

"**Permitted Security Interests**" means:

(a) Security Interests in existence on the Closing Date;

(b) Security Interests granted by any Subsidiary in favour of the Issuer or any wholly-owned Subsidiary of the Issuer;

(c) Security Interests securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Issuer or a Subsidiary of the Issuer or becomes a Subsidiary of the Issuer, provided that such Security Interests (i) were not created in contemplation of such merger or consolidation or event; and (ii) do not extend to any assets or property of the Issuer or any Subsidiary of the Issuer (other than those of the Person acquired and its Subsidiaries (if any));

(d) Security Interests already existing on assets or property acquired or to be acquired by the Issuer or a Subsidiary of the Issuer, provided that such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than the proceeds of such acquired assets or property);

(e) Security Interests granted upon or with regard to any property hereafter acquired by any member of the Group to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;

(f) any netting or set-off arrangement entered into by any member of the Group in the ordinary course of its banking business for the purpose of netting debit and credit balances;

(g) any Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation of receivables, asset-backed financing or similar financing structure and whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest, are to be discharged solely from such assets or revenues, provided that the aggregate value of assets or revenues subject to such Security Interest when added to the aggregate value of assets or revenues which are the subject of any securitisation of receivables, asset-backed financing or similar financing structure permitted pursuant to Condition 4(d) (*Disposals*), does not, at any such time, exceed 25 per cent. of the Issuer's loans and advances to customers, determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period;

(h) Security Interests upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;

(i) Security Interests arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market relating to the establishment of margin deposits and similar arrangements in connection with interest rate and foreign currency hedging operations;

(j) any Security Interests arising by operation of law and in the ordinary course of business including tax and other non-consensual Security Interests; and

(k) any Security Interests not otherwise permitted by the preceding paragraphs (a) to (j), inclusive, provided that the aggregate principal amount of the Indebtedness secured by such Security Interests does not at any time exceed the greater of US$50,000,000 or 2 per cent. of the total consolidated assets of the Group, determined by reference to the consolidated balance sheet of the Group prepared in accordance with IFRS as at the end of the most recent IFRS Fiscal Period;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, trust, institution, organisation, state or Agency or any other entity, whether or not having separate legal personality;

"**Potential Event of Default**" means an event or circumstance which could, with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 9, become an Event of Default;

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities lending or rental agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for the purposes of this definition, the term "securities" means any Capital Stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any public or private company, any government or Agency or instrumentality thereof or any supranational, international or multinational organisation;

"**Restricted Payment**" has the meaning given to it in Condition 4(g);

"**Risk Weighted Assets**" means, in relation to any Banking Entity, the aggregate of its consolidated balance sheet assets and off-balance sheet engagements, weighted for credit and market risk in accordance with the BIS Guidelines;

"**Security Interest**" means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction);

"**Single Party**" means a Person and all Affiliates of such Person;

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at a given time, any other Person (the "**second Person**") (a) whose affairs and policies the first Person directly or indirectly controls or (b) as to whom the first Person owns directly or indirectly more than 50 per cent. of the capital, voting stock or other right of ownership and "**Control**", as used in this definition, means the power to direct the management and the policies of the second Person, whether through the ownership of share capital, by contract or otherwise, "**Controlled**" being construed accordingly;

"**Tier 1 Capital**" means, in relation to a Banking Entity, the Tier 1 capital of such Banking Entity, as such term is defined in the BIS Guidelines; and

"**Voting Stock**" means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

18. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further securities having the same terms and conditions of the Notes in all respects (or in all respects except the issue price, issue date and/or first payment of interest on such securities) and so that such further issue is consolidated and forms a single series with the Notes or upon such other terms as the Issuer may determine at the time of their issue. References in these conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the Notes constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed.

19. GOVERNING LAW AND JURISDICTION

(a) **Governing Law**: The Trust Deed and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Arbitration**: Subject to Condition 19(c) (*Jurisdiction*), any disputes which may arise out of or in connection with the Trust Deed of the Notes (including any claim, dispute or difference regarding its existence, termination or validity or any non-contractual obligations arising out of or in connection with the Trust Deed or the Note) (each, a "**Dispute**") may be finally settled by arbitration under the Rules of the LCIA (formerly the London Court of International Arbitration) (the "**Rules**"). The place of such arbitration shall be London and the language English. The number of arbitrators shall be three, each of whom shall be a lawyer experienced in international finance transactions. The claimant(s), irrespective of number, shall nominate jointly one arbitrator; the respondents, irrespective of number, shall nominate jointly one arbitrator; and a third arbitrator, who shall act as Chairman, shall be nominated by the two party-nominated arbitrators, provided that if the third arbitrator has not been nominated within the time limits specified by the Rules, such third arbitrator shall be appointed by the LCIA court. Any provisions of such Rules relating to the nationality of an arbitrator shall, to that extent, not apply. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

(c) **Jurisdiction**: Before the nomination of an arbitrator pursuant to Condition 19(b) (*Arbitration*), the Trustee may, by notice in writing to the Issuer, require that any dispute or disputes be heard by a court of law. If the Trustee gives such notice, the courts of England shall have exclusive jurisdiction in respect of all such disputes and, accordingly, if such notice is given by the Trustee, any suit, action or proceedings arising out of or in connection with the Trust Deed or the Notes (together referred to as "Proceedings") may be brought in the courts of England. The Issuer irrevocably submits to the jurisdiction of such courts. This submission is for the benefit of the Noteholders.

(d) **No objection to Proceedings**: The Issuer irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought in an inconvenient forum and further irrevocably and unconditionally agrees that a final non-appealable judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon the Issuer and may be enforced in the courts of any other jurisdiction to which the Issuer is or may be subject. Nothing in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(e) **Agent for Service of Process**: The Issuer irrevocably appoints Bank of Georgia Representative Office UK Limited, at 84 Brook Street, London W1K 5EH, United Kingdom, as its agent in England to receive service of process in any Proceedings in England. If for any reason such agent shall cease to be such agent for service of process, the Issuer shall appoint a new agent for service of process in England and deliver to the Trustee a copy of the new agent's acceptance of that appointment within 30 days.

(f) **Waiver of immunity**: To the extent that the Issuer or any of its assets has (on the date of issue of the Notes), or thereafter may acquire, any right to immunity from set-off, legal proceedings, attachment prior to judgement, other attachment or execution of judgement on the grounds of sovereignty or otherwise, the Issuer hereby irrevocably waives any such right to immunity and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever of any order, award or judgment made or given in connection with any Proceedings.

OVERVIEW OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

1. INITIAL ISSUE OF CERTIFICATES

The Regulation S Notes shall be represented by a permanent Regulation S Global Certificate, in fully registered form without interest coupons, deposited with Citibank Europe PLC as common depositary for, and registered in the name of Citivic Nominees Limited as nominee of, Euroclear and Clearstream, Luxembourg.

The Rule 144A Notes shall be represented by a permanent Rule 144A Global Certificate, in fully registered form without interest coupons, deposited with Citibank N.A. as custodian for, and registered in the name of Cede & Co. as nominee of, The Depository Trust Company ("**DTC**").

Upon the registration of the Regulation S Global Certificate in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the Regulation S Global Certificate to the common depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid as represented by the Regulation S Global Certificate.

Upon the registration of the Rule 144A Global Certificate in the name of Cede & Co. as nominee of DTC and delivery of the Rule 144A Global Certificate to the custodian for DTC, DTC will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid as represented by the Rule 144A Global Certificate.

2. RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a Note represented by a Global Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Bank to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). Such persons shall have no claim directly against the Bank in respect of payments due on the Notes for so long as the Notes are represented by the Global Certificate and such obligations of the Bank will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

3. EXCHANGE FOR DEFINITIVE CERTIFICATES

The following will apply in respect of transfers of Notes held in DTC, Euroclear or Clearstream, Luxembourg. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by the Global Certificate pursuant to Condition 2(b) may only be made in part:

(i) if the Global Certificate is held by or on behalf of DTC, Euroclear or Clearstream, Luxembourg and such clearing system notifies the Bank that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to such Global Certificate or ceases to be a "clearing agency" registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Bank is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or

(ii) if the Bank would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 which would not be suffered were the Notes in definitive form and a note to such effect signed by two Members of the Bank Management Board is delivered to the Trustee, by the Bank giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the Global Certificate for Definitive Certificates on or after the Exchange Date specified in the notice.

"Exchange Date" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the relevant Transfer Agent is located.

4. AMENDMENT TO CONDITIONS

The Global Certificate contains provisions that apply to the Notes that it represents, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is an overview of certain of those provisions:

4.1 Payments

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

4.2 Meetings

For the purposes of any meeting of Noteholders, the holder of the Notes represented by the Global Certificates shall (unless the Global Certificate represents only one Note) be treated as two persons for the purposes of any quorum requirements of a meeting of Noteholders and as being entitled to one vote in respect of each integral currency unit of the currency of the Notes.

4.3 Trustee's Powers

In considering the interests of Noteholders while the Global Certificates are held on behalf of, or registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Notes represented by the Global Certificate.

TAXATION

The following is a general description of certain material United States Federal, United Kingdom, EU, and Georgian other tax considerations relating to the Further Notes. It does not purport to be a complete analysis of all tax considerations relating to the Further Notes, whether in the United States, United Kingdom, EU and Georgia or elsewhere. Prospective purchasers of the Further Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Further Notes and receiving payments of interest, principal and/or other amounts under the Further Notes and the consequences of such actions under the tax laws of those countries. This overview is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Further Notes.

Certain Material United States Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON INVESTORS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a general overview of certain material US federal income tax consequences of the acquisition, ownership and retirement or other disposition of the Further Notes by a holder thereof. This overview is not a complete analysis or description of all potential US federal income tax consequences to holders, and does not address state, local, foreign, or other tax laws. This overview does not address aspects of US federal income taxation that may be applicable to holders that are subject to special tax rules, such as US expatriates, "dual resident" companies, banks, thrifts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations or investors, dealers or traders in securities, commodities or currencies, or to holders that will hold the Further Notes as part of a position in a "straddle" or as part of a "synthetic security" or as part of a "hedging", "conversion", "integrated" or constructive sale transaction for US federal income tax purposes or that have a "functional currency" other than the US dollar, US holders who are residents of Georgia, or holders otherwise subject to special tax rules. This overview also does not address the US federal income tax consequences of owning the Further Notes to traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, investors in pass-through entities, "controlled foreign corporations", or "passive foreign investment companies". Moreover, this overview does not address the US federal estate and gift tax, the 3.8 per cent. Medicare contribution tax applicable to net investment income of certain non-corporate US Holders, or alternative minimum tax consequences of the acquisition, ownership, retiring or other disposition of the Further Notes and does not address the US federal income tax treatment of holders that do not acquire the Further Notes as part of the initial distribution at the initial issue price (defined below). Each prospective purchaser should consult its tax advisor with respect to the US federal, state, local and foreign tax consequences of acquiring, holding, retiring or disposing of the Further Notes.

This overview is based on the US Internal Revenue Code of 1986, as amended (the "**Code**"), administrative pronouncements, judicial decisions and existing and proposed US Treasury Regulations, in each case, as available and in effect on the date hereof. All of the foregoing are subject to change or differing interpretation, which could apply retroactively and affect the tax consequences described herein.

For purposes of this overview, a "**US Holder**" is a beneficial owner of a Further Note that (a) purchases a Further Note in the offering at the initial issue price; (b) holds a Further Note as a capital asset; and (c) is, for US federal income tax purposes:

(i) a citizen or individual resident of the United States;

(ii) a corporation organised in or under the laws of the United States or any state thereof (including the District of Columbia);

(iii) an estate the income of which is subject to US federal income taxation regardless of its source; or

(iv) a trust (1) that validly elects to be treated as a United States person within the meaning of section 7701(a)(30) of the Code for US federal income tax purposes or (2) (a) over the administration of which a US court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

If a partnership (or any other entity treated as a partnership for US federal income tax purposes) holds Further Notes, the US federal income tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its own tax advisor as to the US federal income tax consequences of acquiring, holding, retiring or disposing of the Further Notes.

A "**Non-US Holder**" is a beneficial owner of a Further Note other than a US Holder.

The "**initial issue price**" of a Further Note will equal the initial offering price to the public (not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Further Notes is sold for money.

THE OVERVIEW OF US FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCE TO THEM OF OWNING THE FURTHER NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Pre-issuance Accrued Interest

A portion of the price paid for a Further Note will be allocable to interest that "accrued" after 5 July 2012 prior to the date the Further Note is purchased, or "pre-issuance accrued interest". In accordance with applicable Treasury regulations, for US federal income tax purposes an election may be made to treat a portion of the first interest payment as a non-taxable return of the pre-issuance accrued interest. If this election is not made, the US federal income tax treatment of any pre-issuance accrued interest is not entirely clear. US Holders should consult their tax advisers concerning the US federal income tax treatment of pre-issuance accrued interest.

Payments of Interest

It is anticipated and the following discussion assumes that the Further Notes will not be issued with more than a *de minimis* amount of original issue discount ("**OID**").

Interest paid on a Further Note will be included in a US Holder's gross income as ordinary interest income at the time it is received or accrued in accordance with the US Holder's usual method of tax accounting. Interest on the Further Notes will be treated as foreign source income for US federal income tax purposes, which may be relevant in calculating a US holder's foreign tax credit limitation.

Subject to the discussion below under the caption "*−US Backup Withholding Tax and Information Reporting*", payments of interest on a Further Note to a Non-US Holder generally will not be subject to US federal income tax unless such income is effectively connected with the conduct by such Non-US Holder of a trade or business in the United States.

Premium

If a US Holder purchases a Further Note for an amount in excess of the sum of all amounts payable on the Further Note after the date of acquisition (other than payments of qualified stated interest), the holder will be considered to have purchased the Further Note with "amortizable bond premium" equal in amount to the excess, and generally will not be required to include any OID in income. The amount of amortizable bond premium for each taxable year is the sum of the daily portions of bond premium with respect to the Further Note for each day during the taxable year or portion of the taxable year on which the US Holder holds the Further Note. The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the bond premium allocable to that accrual period. Accrual periods with respect to a Further Note may be of any length selected by the US Holder and may vary in length over the term of the Further Note as long as (i) no accrual period is longer than one year; and (ii) each scheduled payment of interest or principal on the Further Note occurs on either the final or first day of an accrual period. The amount of bond premium allocable to an accrual period equals the excess of (a) the sum of the payments of interest on the Further Note allocable to the accrual period over (b) the product of the Further Note's adjusted acquisition price at the beginning of the accrual period and the Further Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period). The "adjusted acquisition price" of a Further Note at the beginning of any accrual period is the US Holder's purchase for the Further Note, decreased by the amount of bond premium for each accrual period. An election to amortize bond premium applies to all taxable debt obligations held or subsequently acquired by the US Holder on or after the first day of the first taxable year to which the election applies and may be revoked only with the consent of the US Internal Revenue Service ("**IRS**").

Sale, Exchange or Retirement of the Further Notes

Upon the sale, exchange, retirement or other disposition of a Further Note, a US Holder will generally recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange or retirement (other than amounts attributable to accrued but unpaid interest, which will be taxable as such) and the US Holder's adjusted tax basis in such Further Note. A US Holder's adjusted tax basis in a Further Note generally will equal the US dollar cost of such Note to the US Holder less any principal payments received on the Note. Any such gain or loss will be capital gain or loss and will be long-term capital gain or loss if such US Holder's holding period for such Further Notes exceeds one year. Certain US Holders (including individuals) are eligible for preferential rates of US federal income tax in respect of long-term capital gain. The deductibility of capital losses is subject to substantial limitations. Any gain or loss realised on the sale, exchange, retirement or other disposition by a US Holder of a Further Note generally will be treated as US source gain or loss, as the case may be. Therefore, a US Holder may have insufficient foreign source income to utilise foreign tax credits attributable to any withholding or other foreign tax imposed on the sale or disposition. See "*Taxation—Georgia*." Prospective purchasers should consult their tax advisers as to the foreign tax credit implications of the sale or retirement of the Further Notes.

Subject to the discussion below under "*—US Backup Withholding Tax and Information Reporting*," any gain realised by a Non-US Holder upon the sale, exchange, retirement or other disposition of a Further Note generally will not be subject to US federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-US Holder of a trade or business in the United States or (ii) in the case of any gain realised by an individual Non-US Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, retirement or other disposition, and certain other conditions are met.

US Backup Withholding Tax and Information Reporting

Certain US Holders are subject to backup withholding tax and information reporting requirements on certain payments of principal and interest on the Further Notes and with respect to proceeds from the sale, exchange, retirement or other disposition of the Further Notes.

Payors will be required to withhold backup withholding tax on payments made within the United States, or by a US payor or US middleman, on Further Notes held by a US Holder (other than an exempt recipient), if the US Holder fails to furnish its correct taxpayer identification number, fails to report all interest and dividends required to be shown on its US federal income tax returns, or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements.

Payments within the United States, or by a US payor or US middleman, of principal, interest and proceeds of sale to a Non-US Holder will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the Non-US Holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect.

Backup withholding tax is not an additional tax. A holder generally will be entitled to credit any amounts withheld under the backup withholding rules against such holder's US federal income tax liability provided the required information is furnished to the IRS in a timely manner.

Disclosure Requirements for Specified Foreign Financial Assets

Individual US Holders (and certain US entities specified in IRS guidance) who, during any taxable year, hold any interest in any "specified foreign financial asset" generally will be required to file with their US federal income tax returns a statement setting forth certain information if the aggregate value of all such assets exceeds US $50,000. "Specified foreign financial asset" generally includes any financial account maintained with a non-US financial institution and may also include the Further Notes if they are not held in an account maintained with a US financial institution. Depending on the aggregate value of a US Holder's investment in specified foreign financial assets, the US Holder may be obligated to file an IRS Form 8938 under this provision. Substantial penalties may be imposed, and the period of limitations on assessment and collection of US federal income taxes may be extended, in the event of a failure to comply. Persons considering an investment in the Further Notes should consult their own tax advisors as to the possible application to them of this filing requirement.

Foreign Account Tax Compliance Act

Under certain circumstances, the Issuer or its paying agent may be required, pursuant to Sections 1471 through 1474 of the Code, and the regulations promulgated thereunder ("**FATCA**"), to withhold US tax at a rate of 30% on all or a portion of payments of principal and interest which are treated as "foreign pass-thru payments" made on or after 1 January 2017 to an investor or any other non-US financial institution through which payment on the Further Notes is made that is not in compliance with FATCA. The application of FATCA to interest, principal or other amounts paid on or with respect to the Further Notes is not currently clear. Under FATCA, Further Notes issued prior to 1 July 2014 generally will not be subject to withholding under FATCA. However, if, on or after 1 July 2014, the Further Notes are modified, then such Further Notes would become subject to withholding under FATCA if such modification results in a deemed exchange of the Further Notes for US federal income tax purposes. However, if further Notes are issued on or after 1 July 2014, payments on such further Notes may be subject to withholding FATCA and, should the Further Notes issued prior to 1 July 2014 and such subsequently issued Notes be indistinguishable, such payments on the Further Notes issued prior to 1 July 2014 may also become subject to withholding under FATCA.

If an amount in respect of FATCA withholding were to be deducted or withheld from interest, principal or other payments made in respect of the Further Notes, neither the Issuer nor any paying agent nor any other person would, pursuant to the conditions of the Further Notes, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

THE ABOVE DESCRIPTION IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL US TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF THE FURTHER NOTES. PROSPECTIVE PURCHASERS OF THE FURTHER NOTES SHOULD CONSULT THEIR OWN TAX ADVISERS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.

United Kingdom Taxation

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Bank) to whom special rules may apply. The United Kingdom tax treatment of prospective noteholders depends on their individual circumstances and may be subject to change in the future. Prospective noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Payment of Interest on the Notes

Interest on the Notes may constitute United Kingdom source income for tax purposes so that, unless an exemption or other relief applies as discussed below, an amount may be required to be withheld on account of United Kingdom income tax at the basic rate (currently 20%).

Payments of interest on the Notes may be made without deduction or withholding on account of United Kingdom income tax provided that the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the "**Income Tax Act 2007**"). The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes are and remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by a company and, at the time when the payment is made, the Bank reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the interest, provided that H.M. Revenue & Customs ("**HMRC**") has not given a direction that the interest must be paid under deduction of tax. If no withholding or deduction on account of United Kingdom tax has been made on this basis and the beneficial owner is not within the charge to United Kingdom corporation tax as regards the payment of interest, the right to pay without withholding or deduction is treated as having never applied to such payment.

In other cases, an amount may generally be required to be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20%). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a noteholder, HMRC can issue a notice to the Bank to pay interest to the noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a noteholder or, in the case of Notes that are issued at a discount, who either pays amounts payable on the redemption of Notes to or receives such amounts for the benefit of another person. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

Further United Kingdom Income Tax Issues

Interest on the Notes may constitute United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without deduction or withholding on account of United Kingdom tax.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident in the United Kingdom for tax purposes unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom permanent establishment, branch or agency in connection with which the interest is received or to which the Notes are attributable.

Taxation of Chargeable Gains

A disposal of Notes by an individual Noteholder who is resident or ordinarily resident in the United Kingdom, or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable, may give rise to a chargeable gain or allowable loss for the purposes of the United Kingdom taxation of chargeable gains.

Accrued Income Scheme

On a disposal of Notes by an individual Noteholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Income Tax Act 2007, if that noteholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable.

United Kingdom Corporation Tax Payers

In general, Noteholders which are within the charge to United Kingdom corporation tax will be charged to tax on income in respect of any returns, profits or gains arising on the Notes broadly in accordance with their statutory accounting treatment.

Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty reserve tax will be payable on the issue or transfer of the Notes. No United Kingdom stamp duty will be payable on the issue of the Notes and no United Kingdom stamp duty should be required to be paid on any transfer of the Notes. Notwithstanding the above, any stamp duty which is required to be paid on any transfer of the Notes will generally be borne by the transferee of the Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Taxation of Savings Income Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Austria and Luxembourg will operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. The transitional period is expected to end with effect from 1 January 2015 for Luxembourg). A number of non-EU countries and territories, including Switzerland, have adopted similar measures (a withholding system, in the case of Switzerland).

On 13 November 2008, the European Commission proposed certain amendments to the Directive. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of the proposed changes are made in relation to the Taxation of Savings Income Directive, they may amend or broaden the scope of the requirements described above.

The Issuer will undertake to maintain a paying agent in a member state of the European Union that is not obliged to withhold or deduct tax pursuant to the Taxation of Savings Income Directive or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income, or any law implementing, or complying with or introduced in order to conform to, such directive.

Georgian Taxation

The analysis below is a general overview of certain Georgian tax implications related to the Notes prepared in accordance with Georgian tax legislation. As with other areas at Georgian legislation, tax law and practice in Georgia is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that changes may be made in the law or in the current interpretation of the law or current practice, including changes that could have a retroactive effect. Accordingly, it is possible that payments to be made to the Noteholders could become subject to taxation, or that rates currently in effect with respect to such payments could be increased, in ways that cannot be anticipated as of the date of this Prospectus. Each prospective purchaser of Notes should also consider any further tax implications that may be relevant to it under the laws and regulations of other countries in connection with o its purchase, holding and sale of Notes.

Withholding Tax on Interest

Pursuant to the Tax Code of Georgia, interest received from a financial institution licensed in accordance with the legislation of Georgia, should not be taxed at source. Further, the above-mentioned interest shall not be included by a recipient resident person in gross income for the purpose of Georgian tax laws unless the recipient of such interest is also a licensed financial institution in Georgia.

In addition to that, payments of interest on Notes will be exempt from withholding tax and such payments of interest shall not be included in the gross taxable income of Noteholders (whether they are individuals (physical persons) or legal entities), so long as the Notes are issued by the Georgian Resident and listed and admitted to trading on a "recognised foreign stock exchange". For these purposes, the London Stock Exchange is a "recognised foreign stock exchange" under Georgia law. However, it is not clear what kind of evidence tax authorities might require by way of proof that the Notes are listed and admitted to trading on the London Stock Exchange.

Enforceability of Tax Gross-up under the Terms and Conditions of the Notes

Pursuant to Condition 8 (Taxation), in the case of withholding or deduction of any taxes (subject to certain customary exceptions) in respect of any payment on the Notes, the Bank is required to increase the amount of the relevant payment by such amount as would result in the receipt by the relevant Noteholder of the amount which would have been received by it had no such withholding or deduction been required. The Tax Code of Georgia neither prohibits nor permits the inclusion of tax gross-up clauses (such as that set out in Condition 8 (Taxation)) in agreements or instruments made by Georgian companies. In practice, however, such gross-up provisions are widely respected by the tax authorities in Georgia.

Taxation of sale of Notes - General

Pursuant to the Tax Code of Georgia, there will be no profit and income tax payable on the gain in case of the sale of Notes provided that such Notes are public securities admitted to trading on stock exchange listing with free float exceeding 25% as of the end of the reporting year or the year before ("Free Float Exemption"). However, (i) there are no clear guidelines on how the free float shall be determined, (ii) respectively, it is not clear whether a confirmation of the free float can be obtained and (iii) there are no clear guidelines on whether Notes (which are expected to be listed on the London Stock Exchange rather than a Georgian stock exchange) will be counted towards the free float for Georgian tax purposes. Furthermore, some procedural requirements of the Tax Code and lack of practice in that respect may preclude applicability of such exemption in practice. In this case following tax liabilities may arise:

Taxation of sale of Notes by Non-Resident Legal Entity Noteholders

Legal entities in Georgia are subject to 15% profit tax, with the tax base being calculated after permitted deductions. If the Free Float Exemption does not apply, for non-resident legal entities the profit tax will be assessed on the difference between the initial purchase and subsequent sale price. If such sale triggers a tax exposure, the relevant non-resident entity will be under an obligation to properly report and pay such profit tax to the Georgian tax authorities, or if the sale is done through a Georgian brokerage company, such brokerage company may be responsible for withholding the applicable tax. However, the actual applicability of this taxation regime is subject to considerable impracticability and lack of enforceability, which may, in limited circumstances, lead to the adoption of peculiar and, at times, rather aggressive interpretations by the tax authorities. The applicability of Georgian profit tax may be affected by a double tax treaty between Georgia and the country of residency of the selling entity.

Taxation of sale of Notes by Non-Resident Individuals Noteholders

Individuals in Georgia are subject to income tax at a current rate of 20%, with the tax base being calculated after permitted deductions. If the Free Float Exemption does not apply, for the non-resident individuals the income tax will be assessed on the difference between the initial purchase and subsequent sale price. If such sale triggers a tax exposure, a relevant non-resident individual will be under an obligation to properly report and pay such income tax to the Georgian tax authorities, or if the sale is done through a Georgian brokerage company, such brokerage company may be responsible for withholding the applicable tax. However, the actual applicability of this taxation regime is subject to considerable impracticability and lack of enforceability, which may, in limited circumstances, lead to the adoption of peculiar and, at times, rather aggressive interpretations by the tax authorities. The applicability of Georgian income tax may be affected by a double tax treaty between Georgia and the country of residency of the seller individual.

Certain exemptions may also be available to individual Noteholders if such individuals maintain ownership of such Notes for more than two calendar years.

Taxation of sale of Notes by Resident Individual Noteholders

If the Free Float Exemption does not apply, a Georgian resident individual Noteholder will become liable to pay income tax at 20%) upon the disposal of the Notes. The income tax will be assessed on the difference between the initial purchase and subsequent sale price. If the sale is done through a Georgian brokerage company, such brokerage company may be responsible for withholding the applicable tax. Certain exemptions may be available to Georgian resident individual Noteholders if such individuals maintain ownership of such Notes for more than two calendar years.

Taxation of sale of Notes by Resident Legal Entity Noteholders

If the Free Float Exemption does not apply, Georgian resident legal entity will be liable to pay 15% profit tax upon the disposal of the Notes. The profit tax base shall be calculated as the difference between acquisition and sale prices.

Value Added Tax

Sales (supply) of the Notes are exempt from Value Added Tax in Georgia.

Other Considerations

The Tax Code of Georgia expressly provides for ability of the tax inspection to re-examine the transaction price indicated by the respective parties, subject to certain procedural requirements.

TRANSFER RESTRICTIONS

Rule 144A Securities

Each purchaser of Rule 144A Further Notes, by purchasing such Further Notes, will be deemed to have represented, agreed and acknowledged that it has received such information as it deems necessary to make an investment decision and that:

(a) It is (i) a QIB; (ii) acquiring the Further Notes for its own account or for the account of one or more QIBs, (iii) not acquiring the Further Notes with a view to further distribute the Further Notes; and (iv) aware, and each beneficial owner of the Further Notes has been advised, that the sale of such Further Notes to it is being made in reliance on Rule 144A.

(b) It understands that the Further Notes have not been and will not be registered under the US Securities Act and may not be offered, sold, pledged or otherwise transferred except (i) pursuant to a registration statement that has been declared effective under the US Securities Act; (ii) in reliance on Rule 144A to a person that the holder and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of another QIB; (iii) in an offshore transaction in accordance with Regulation S; (iv) pursuant to Rule 144 under the US Securities Act (if available); or (v) pursuant to any other available exemption from the registration requirements of the US Securities Act, in each case, in accordance with any applicable securities laws of any state of the United States.

(c) It acknowledges that the Further Notes offered and sold hereby in the manner set forth in paragraph (a) are "restricted securities" within the meaning of Rule 144(a)(3) under the US Securities Act, and are being offered and sold in a transaction not involving any public offering in the United States within the meaning of the US Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of the Further Notes.

(d) It understands that any offer, sale, pledge or other transfer of the Further Notes made other than in compliance with the above-stated restrictions may not be recognised by the Bank.

(e) It understands that the Further Notes, unless otherwise agreed between the Bank and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATIONS S**") OR (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THIS NOTE SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE TRUST DEED.

If it is acquiring any Further Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make (and does make) the foregoing acknowledgments, representations and agreements on behalf of each such account. The Bank, the Registrar, the Joint Lead Managers and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

It understands that the Further Notes offered in reliance on Rule l44A will be represented by the Rule 144A Global Certificate. Before any interest in the Rule 144A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that the sellers of the Further Notes may be relying on the exemption from the provisions of Section 5 of the US Securities Act provided by Rule 144A.

Regulation S Securities

Each purchaser of Regulation S Further Notes, by purchasing such Further Notes, will be deemed to have represented, agreed and acknowledged that it has received such information as it deems necessary to make an investment decision and that:

(a) It understands that the Further Notes have not been and will not be registered under the US Securities Act, and the Further Notes are being offered and sold in accordance with Regulation S.

(b) It or any person on whose behalf it is acting is, or at the time the Further Notes are purchased will be, the beneficial owner of the Further Notes and (i) it is purchasing the Further Notes in an offshore transaction (within the meaning of Regulation S) and (ii) it is not an affiliate of the Bank or a person acting on behalf of such an affiliate.

(c) It will not offer, sell, pledge or otherwise transfer Further Notes, except in accordance with the US Securities Act and any applicable securities laws of any state of the United States.

(d) The Bank, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to a Subscription Agreement dated 4 November 2013, severally (and not jointly) agreed with the Bank, subject to the satisfaction of certain conditions, to subscribe for the aggregate principal amount of the Further Notes listed next to its name in the table below at the issue price of 105.249% plus accrued interest from and including 5 July 2013 to but excluding the Closing Date. The Bank has agreed to pay to the Joint Lead Managers a combined management and underwriting and selling concession in respect of the Further Notes. In addition, the Bank has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Bank.

Joint Lead Manager	**Principal Amount of the Further Notes**
J.P. Morgan Securities plc	US$75,000,000
Merrill Lynch International	US$75,000,000
Total	US$150,000,000

The yield of the Further Notes is 6.125% on an annual basis. The yield is calculated as of the issue date of the Further Notes on the basis of the issue price. It is not an indication of future yield.

General

No action has been or will be taken in any jurisdiction by the Joint Lead Managers or the Bank that would permit a public offering of the Further Notes, or possession or distribution of any other offering relating to the Further Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has agreed that it will comply to the best of its knowledge and belief with all applicable laws and regulations in each jurisdiction in which it offers or sells any Further Notes or distributes or publishes this Prospectus or any such other material.

United States

The Further Notes have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States except in certain transaction exempt from, or not subject to, the registration requirements of the US Securities Act. Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any Further Notes within the United States, except as permitted by the Subscription Agreement. The Further Notes are being offered and sold by the Joint Lead Managers outside the United States in accordance with Regulation S.

The Subscription Agreement provides that the Joint Lead Managers may offer and sell the Further Notes within the United States to QIBs in reliance on Rule 144A. Any offers and sales by the Joint Lead Managers in the United States will be conducted by broker-dealers registered with the SEC.

In addition, until 40 days after the commencement of the offering, an offer or sale of Further Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in reliance on Rule 144A or another available exemption from registration under the US Securities Act.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), an offer to the public of any Further Notes (including by means of a resale or other transfer) may not be made in that Relevant Member State, other than the offer contemplated in this Prospectus once the Prospectus has been approved by the UK Listing Authority (being the competent authority in the United Kingdom), and published in the United Kingdom in accordance with the Prospectus Directive as implemented in the United Kingdom, except that an offer to the public in that Relevant Member State of any Further Notes may be made at any time under the following exemptions under the Prospectus Directive, if and as they have been implemented in that Relevant Member State:

- to legal entities which are qualified investors as defined in the Prospectus Directive;
- by the Joint Lead Managers to fewer than 100, or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Joint Lead Manager nominated by the Bank for any such offers; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Further Notes shall result in a requirement for the Bank or the Joint Lead Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of the provisions above, the expressions "offer to the public", "Prospectus Directive" and "2010 PD Amending Directive" shall have the following meanings: (i) an "**offer to the public**" in relation to any Further Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offering and the Further Notes to be offered so as to enable an investor to decide to purchase any Further Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; (ii) "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State; and (iii) "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

In the United Kingdom, this Prospectus may be distributed only to and may be directed only at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"); (b) high net worth entities falling within Article 49(2) (a) to (d) of the Order; or (c) other persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as "relevant persons"). Neither this Prospectus nor any other offering material has been submitted to the clearance procedures of the Financial Conduct Authority in the United Kingdom. The Further Notes may not be offered or sold to persons in the United Kingdom except to "qualified investors" as defined in section 86(7) of the Financial Services and Markets Act 2000, as amended (the "**FSMA**").

Each of the Joint Lead Managers has represented and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of any of the Further Notes in circumstances in which section 21(1) of the FSMA does not apply to the Bank; and

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Further Notes in, from or otherwise involving the United Kingdom.

In relation to member states of the EEA other than the United Kingdom, there may be further rules and regulations of such country or jurisdiction within the EEA relating to the offering of the Further Notes or distribution or publication of this Prospectus or any other offering material or advertisement; persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of the Prospectus and the offer of Further Notes applicable in such EEA Member State.

Georgia

Each Joint Lead Manager has agreed that the Further Notes shall not be offered or sold in the territory of Georgia in a public offering without a prior or simultaneous delivery/publication of a final prospectus approved by the NBG in accordance with the Law of Georgia on Securities Market. A "public offering" is defined as an offer to sell securities directly or indirectly on behalf of an issuer or other person to at least 100 persons or to an unspecified number of persons. In the event, however, that the securities of the Bank are placed/listed on London Stock Exchange, which is a "recognised stock exchange of the foreign country", the Further Notes may be issued and offered in Georgia in a public offering without approval of the final prospectus related to the Further Notes by the NBG, provided that the NBG is notified about public offering of the Further Notes in accordance with Georgian law.

Without limitation of any of the foregoing, each Joint Lead Manager has represented and agreed that it has complied and will comply with all applicable provisions of Georgian law with respect to anything done by it in relation to the Further Notes in, from or otherwise involving Georgia.

Other Relationships

Certain of the Joint Lead Managers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Bank and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank or its affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Bank routinely hedge their credit exposure to the Bank consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Further Notes offered hereby. Any such short positions could adversely affect future trading prices of Further Notes offered hereby. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

GENERAL INFORMATION

1. The listing of the Further Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that listing of the Further Notes on the Official List and admission of the Further Notes to trading on the Market will be granted on or before 7 November 2013, subject only to the issue of Global Certificates. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

2. The Bank has obtained all necessary consents, approvals and authorisations in Georgia in connection with the issue and performance of the Further Notes. The issue of the Further Notes was authorised by a resolution of the Supervisory Board of the Issuer passed on 30 September 2013.

3. There has been no significant change in the financial or trading position of the Bank or of the Group since 30 June 2013 and no material adverse change in the prospects of the Bank or of the Group since 31 December 2012.

4. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during a period covering the previous 12 months from the date of this Prospectus, which may have or have had in the recent past, significant effects on the Bank and/or the Group's financial position or profitability.

5. The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 061917233 for the Rule 144A Notes and 078393556 for the Regulation S Notes. The International Securities Identification Number (ISIN) for the Notes is US373122AA85 for the Rule 144A Notes and XS0783935561 for the Regulation S Notes. The CUSIP number is 373122AA8 for the Rules 144A Notes.

   The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.

6. Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months from the date of publication of this Prospectus at the offices of BGH at 84 Brook Street, London, W1K 5EH, United Kingdom:

   (a) the Trust Deed (which includes the form of the Global Certificates and the Definitive Certificates);

   (b) the Bank's Charter;

   (c) the review report of Ernst & Young LLC on the historical financial information of the Group for the six months ended 30 June 2013 set out on page F-4 of this Prospectus;

   (d) the audit report of Ernst & Young LLC on the historical financial information of the Group for the year ended 31 December 2012 set out on page F-32 of this Prospectus;

   (e) the audit report of Ernst & Young LLC on the historical financial information of the Group for the year ended 31 December 2011 set out on page F-107 of this Prospectus;

   (f) written consent from Ernst & Young LLC (in respect of the review report); and

   (g) a copy of this Prospectus together with any Supplement to this Prospectus or any further Prospectus.

7. Ernst & Young LLC have consented to the inclusion in the Prospectus of their report on page F-4 in the form and context in which it is included and authorised the contents of their reports for the purposes of Prospectus Rule 5.5.4R(2)(f). This statement is included to comply with item 13.1 of Annex IX of Commission Regulation (EC) 809/2004 and item 7.4 of Annex XIII of Commission Regulation (EC) 809/2004.

8. For the purposes of Prospectus Rule 5.5.4R(2)(f) Ernst & Young LLC are responsible for their review report beginning on page F-4 as part of the Prospectus and declare that they have taken all reasonable care

to ensure that the information contained in their report is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

REGULATION OF THE GEORGIAN BANKING SECTOR

The main laws regulating the Georgian banking sector are the NBG Law and the Banking Law. In addition, the NBG has the power to issue decrees/resolutions on various issues within its competence, including, but not limited to, monetary regulation instruments, banking supervision regulations and payment system regulations. The principal legislative act regulating the activities of banks is the Banking Law, which (among other things) sets out the list of permitted and prohibited activities for banks and establishes the framework for the licensing of banks and the regulation of banking activity by the NBG.

Licensing

A licence must be obtained from the NBG for, and banks are permitted to engage only in, "banking activities" as defined in the Banking Law, which include: (i) receiving interest-earning and interest-free deposits and other returnable means of payment; (ii) extending consumer loans, mortgage loans and other credits (whether secured or unsecured), and engaging in factoring operations with and without the right of recourse, trade finance including the granting of guaranties, letters of credit, acceptance finance, and forfeiting; (iii) buying, selling, paying and receiving monetary instruments (such as notes, cheques and certificates of deposit), securities, futures and options with debt instruments or interest rates, currency and interest instruments, debt instruments, foreign exchange, precious metals and precious stones; (iv) cash and non-cash settlement operations and the provision of cash collection services; (v) issuing payment instruments and managing their circulation (including payment cards, cheques and bills of exchange); (vi) interest-free banking services; (vii) intermediary services on the financial markets; (viii) trust operations on behalf of customers and funds management; (ix) safekeeping and accounting for valuables including securities; (x) credit-information services; (xi) activities of the central depositary as determined by the Law of Georgia on Securities Market; (xii) leasing property; (xiii) providing payment services, operating payment systems and acting as settlement agent; and (xiv) activities incidental to each of the above types of services.

The Banking Law provides that any banking activities related to securities shall be regulated by the Law of Georgia on Securities Market and that, prior to tendering interest-free banking services, a commercial bank must present to the NBG a description of the relevant service for the NBG's approval.

Mandatory Financial Ratios

The NBG is authorised to set mandatory capital adequacy ratios, lending limits and other economic ratios. The ratios listed in the table below are set out in the Regulation on Supervision and Regulation of the Activities of Commercial Banks (NBG President Order No. 69/04 of 28 June 2013).

Mandatory Financial Ratio	NBG Minimum/Maximum	Description
Capital adequacy ratios		
Tier I capital adequacy ratio	Tier I Capital to Risk-weighted Assets must not be less than 8.0%	This is intended to limit the risk of a bank's insolvency and sets requirements for the minimum size of the bank's capital base. It is formulated as a ratio of a bank's capital base to its risk-weighted assets.
Total capital (Tier I and Tier II) adequacy ratio..............................	Regulatory Capital to Risk-weighted Assets must not be less than 12.0%	This ratio is formulated as a ratio of a sum of a bank's Tier I and Tier II capital (less certain deductions) to its risk-weighted assets. The risk-weighted assets are calculated under a formula that takes into account, among other things, the bank's capital, selected categories of assets, their respective reserves and risks relating to off-balance sheet commitments and contingencies.

Related party lending ratios

Related party lending single insider ratio	No credit to an insider (or his or her other liabilities to a bank) to exceed 5.0% of Regulatory Capital.	These ratios are intended to limit a bank's credit exposure to an insider (*i.e.* a person or entity controlling the bank, a high-rank official of the bank, an affiliated company or anyone related to any of the above). They are formulated as the maximum ratio of the aggregate amount of the bank's credit claims against its insiders to its capital base.
Related party lending all insiders ratio	The aggregate of all credits to insiders and their other liabilities to a bank not to exceed 25.0% of Regulatory Capital.	

Lending ratios

Lending ratio individual borrower.......................................	No credit to an outsider (or his or her other liabilities to a bank) to exceed 15.0% of Regulatory Capital.	These ratios are intended to limit the credit exposure of a bank to one borrower or a group of related borrowers. They are formulated as the maximum ratio of the aggregate amount of the bank's various credit claims to a borrower (or a group of related borrowers) to its capital base.
Lending ratio group of related borrowers	The aggregate of all credits to a group of related outsiders and their other liabilities to the bank not to exceed 25.0% of Regulatory Capital.	
Large loans to customers	Total large loans to customers and other liabilities not to exceed 200.0% of the Regulatory Capital. The NBG defined "Large Loans and Other Liabilities" as loans to a single borrower or a group of related borrowers and other liabilities in excess of 5.0% of Regulatory Capital.	This ratio intends to limit the concentration of large borrowings in a bank's loan portfolio and a bank's exposure to single or related large borrowers.

Unsecured loans

Uncollateralised loans..................	Not to exceed 25.0% of the total loan portfolio of a bank.	This maximum is intended to limit the bank's credit exposure to unsecured loans.

Liquidity ratios

Average liquid assets: liabilities ..	Average liquid assets during the month shall not be less than 30.0% of average liabilities over the course of the month.	This ratio is intended to limit a bank's liquidity risk by ensuring that a bank maintains sufficient reserves of highly liquid assets.

Mandatory Financial Ratio	NBG Minimum/Maximum	Description
Investments ratios		
Investments: equity	Total investments in the capital of legal persons not to exceed 50.0% of the difference between total assets and liabilities of the bank.	These ratios are intended to limit the aggregate risk of a bank's investments in legal persons by limiting such investments to a proportion of the share capital.
Investments plus fixed assets: equity	Remaining value of a bank's fixed assets together with the total investments in the capital of legal persons not to exceed 70.0% of the difference between total assets and liabilities of the bank.	
Open exchange position		
Cumulative open exchange position	Not to exceed 20.0% of Regulatory Capital. This ratio applies to both on-balance sheet open exchange position and off-balance sheet open exchange position.	The cumulative open exchange position is the value of foreign exchange account balances, meaning on-balance sheet non-GEL assets and liabilities and off balance sheet non-GEL commitments.
Balance sheet open exchange position(1)	Not to exceed 20.0% of Regulatory Capital. This ratio applies to on-balance sheet open exchange position	The balance sheet open exchange position is the value of foreign exchange account balances, meaning non GEL assets and liabilities

Notes:

(1) This ratio has been removed by the NBG as a result of 4 September 2013 amendments.

The following table sets forth information regarding Bank of Georgia's compliance on a stand-alone basis with the foregoing mandatory financial ratio requirements as of 30 June 2013, 31 December 2012, 2011 and 2010.

Mandatory Financial Ratio		Financial Ratio Requirement	As of 30 June 2013	As of 31 December 2012	2011	2010
				(unaudited)		
Tier I capital adequacy ratio	≥	8%	15.44%	13.82%	10.51%	13.00%
Total capital adequacy ratio	≥	12%	16.35%	16.20%	16.25%	14.47%
Related party lending single insider ratio	≤	5%	2.55%	2.02%	1.64%	2.03%
Related party lending all insiders ratio	≤	25%	12.26%	12.25%	8.11%	5.35%
Lending ratio individual borrower(1)	≤	15%	14.73%	20.25%	9.74%	12.21%
Lending ratio a group of related borrowers	≤	25%	18.89%	20.86%	13.92%	23.98%
Large loans to clients	≤	200%	123.61%	134.11%	67.36%	118.26%
Unsecured loans	≤	25%	16.85%	16.70%	18.02%	12.37%
Average liquid assets: liabilities(2)	≥	30%	44.83%	41.14%	37.80%	34.66%
Investments to equity	≤	50%	28.69%	28.08%	25.25%	50.83%
Investments plus fixed assets to equity	≤	70%	55.57%	55.62%	59.63%	83.02%
Balance sheet open exchange position	≤	20%	-1.42%	1.58%	4.54%	6.01%
Cumulative open exchange position	≤	20%	-1.81%	2.86%	8.17%	12.96%

Note:

(1) On 31 October 2012, the Bank obtained a waiver from the NBG in respect to the proposed increase of the limit of aggregate lending to certain borrowers which were treated by the NBG as a single borrower up to 21% of the regulatory capital of the Bank subject to the maximum threshold of US$110 million. Since then the exposure to that particular borrower has been reduced considerably and the Bank complies with the mandatory financial ratios even without the waiver.

(2) For the year ended 31 December 2008 and 31 December 2009, minimal requirement for average liquidity ratio was 2010.

On a stand-alone basis, commencing prior to 2009 and continuing through January 2011 the Bank was in breach of the "Investment plus fixed assets to equity" financial ratio and the "Investments to equity" financial ratio set by the regulator. On 15 December 2008, the Bank received a letter from the Georgian FSA (the regulatory authority at the time) confirming that the Georgian FSA would not impose any sanctions on the Bank provided that the Bank complied with the ratio no later than 31 December 2009 and restricted the Bank from investing in shares and fixed assets of more than GEL 2 million in aggregate, without the Georgian FSA's prior approval. On 31 December 2009, the Bank received a letter from the NBG (the regulatory authority at the time) confirming that the NBG would not impose any sanctions on the Bank as a result of breach of financial ratios, subject to (i) the NBG reserving its right to require the Bank to sell its investments or fixed assets in order to comply with the aforementioned financial ratios; and (ii) the Bank only investing in shares and fixed assets in an amount exceeding GEL 5.0 million (in aggregate) after having sought the NBG's prior approval. The NBG has since confirmed (by a letter dated 27 December 2010) the validity of this waiver through 1 January 2012, subject to the conditions set out in (i) and (ii) above. On a stand-alone basis, commencing in July 2012 and through February 2013, the Bank was in breach of the "Lending ratio individual borrower" financial ratio set by the regulator. On 31 October 2012, the Bank received a waiver from the NBG in respect to the proposed increase of the limit of aggregate lending to certain borrowers which were treated by the NBG as a single borrower up to 21% of the Bank's regulatory capital subject to a maximum threshold of US$110 million. Since then the exposure to that particular borrower has been reduced considerably and the Bank complies with the mandatory financial ratios even without the waiver and also is in compliance with all mandatory financial ratios. Effective 31 July 2013, the NBG introduced an amended liquidity ratio instruction, pursuant to which the Bank's liquid assets are reduced by the percentage concentration of non-resident deposits that are above 10% of total deposits on a standalone basis.

Reserve Requirements

Under the NBG Law, the NBG may establish reserve requirements for banks and it may impose a fine on a bank that fails to comply with these reserve requirements. In the past, based on various economic and financial considerations, the NBG has been imposing at times identical and at times differentiated reserve requirements for domestic and foreign currencies.

From 1994 until 2003, identical minimal reserve requirements were established for domestic and foreign currencies, with rates ranging from a maximum of 20% to a minimum of 12%. Beginning in September 2003, the NBG established different rate requirements for funds in domestic and foreign currencies. In 2007, the minimal reserve requirements were re-established at identical rates for domestic and foreign currencies (13%). However, in April 2010, the NBG imposed different rates for minimal reserves for funds in domestic and foreign currencies, which were applicable until January 2011, when identical rates were introduced once again (10%).

In February 2011, the NBG issued a new rule on minimum reserve requirements (approved by Order No. 10/04) (which was further amended in June and July 2011, July 2012 and April 2013). Based on this Order, currently effective minimal reserve requirements are set at 10% for Lari funds and 15% for all foreign currency funds (except borrowed funds in foreign currency with a remaining term of between 365 and 730 days, for which the minimal reserve requirement is 5%). The following liabilities are not subject to minimum reserve requirements: capital and equivalent funds, subordinated loans, borrowed funds from the NBG and Georgian commercial banks (inter-bank loans), borrowed Lari funds with a remaining term of over 365 days, borrowed foreign currency funds with the remaining term of more than 730 days, standard certificates of deposits ("**CDs**") (which are defined as Lari denominated CDs with a contractual maturity of three, six, nine, twelve, eighteen or twenty-four months, liabilities which on the balance sheet are not related to cash flows and other liabilities in certain circumstances and subject to NBG approval).

If a bank's licence is revoked, its mandatory reserves are included in the pool of assets available for distribution to the bank's creditors in the order of priority established by law. If the revocation of a banking licence was caused by reorganisation of the bank, the mandatory reserves are transferred to the legal successor of the bank.

Provisioning

Pursuant to the "Regulation on Asset Classification and Creation and Use of Reserves for Losses by Commercial Banks", approved by order of the NBG President No. 350 of 29 December 2000, loans are classified into five risk categories and banks are required to create loan loss reserves at the levels indicated below:

- *Standard Loans*. Where principal and interest are being paid in a timely manner: 2.0% of outstanding principal amount

- *Watch Loans.* Where some deficiencies or trends are apparent that represent a minor credit risk, past due interest is unpaid and has been added to principal, or a payment is overdue by less than 30 days: 10.0% of outstanding principal amount

- *Substandard Loans.* Where the financial capability of the borrower or the value of the collateral has declined to such an extent that it jeopardises repayment, an unsecured or partially secured loan is at least 30 days past due, or a secured loan is at least 60 days overdue: 30.0% of outstanding principal amount

- *Doubtful Loans*. Where repayment under existing conditions is considered doubtful, an unsecured or partially secured loan is at least 90 days overdue, or a fully secured loan is at least 120 days overdue: 50.0% of outstanding principal amount

- *Loss Loans.* Where the borrower is insolvent, payments are overdue by at least 150 days, or anticipated recoverable amounts are so small that collection efforts will be more expensive than the anticipated recoverable amounts: 100.0% of outstanding principal amount

Where a single borrower has received several loans from a bank, each loan may be categorised individually based on the underlying collateral.

Losses should be recognised in the reporting period in which they are identified as being non-collectable and they should be written off the balance sheet for that period. After loans are written off the books, they should remain on an off-balance-sheet account for five years while the bank makes diligent efforts to collect past due interest and principal.

Reporting Requirements

All banks are subject to inspection by the NBG. Inspectors may examine a bank's accounts, books, documents and other records and those of its subsidiaries and may require its offices, employees and agents to provide any and all information and documents upon their request. On-site inspections are risk-based, concentrating on loan portfolio quality, asset qualification, collateral quality and loan application decisions. Banks are required to submit annual external audit reports together with the audited annual IFRS financial statements to the NBG and to publish them. Banks are also required to submit different mandatory, NBG rules-based financial reports to the NBG, in a specially designed format (templates) on a regular basis (daily, weekly, monthly, quarterly, annual, decade).

Corporate Governance

Georgia has not adopted a code of corporate governance. In December 2003, the NBG circulated an official letter to Georgian commercial banks requesting them to begin introducing the best corporate governance practices based on the 1999 OECD Corporate Governance Principles. However, no deadline for such implementation has been established.

The board of BGH is committed to high standards of corporate governance and has implemented a framework for corporate governance which it considers to be consistent with the UK Corporate Governance Code and appropriate for BGH. This framework is reviewed on an annual basis as part of the performance evaluation process and will be reviewed in light of any changes to BGH's strategy and the UK Corporate Governance Code.

Regulation of Commercial Bank Employees and Supervisory Board Members

Pursuant to NBG Order No. 234 dated 16 September 2002 (as amended by Order No. 212 dated 30 September 2004, Order No. 241 dated 6 September 2006 and Order No. 33 dated 7 February 2007), all managers and senior personnel of commercial banks must fulfil the following criteria in order to ensure that they are fit for the position:

- each member of the bank's management board, director and deputy director of a branch or similar structural unit must have a university degree in economics, finance, banking, business administration, audit, accounting or law;

- the chief accountant and deputy chief accountant of the bank and of each branch must have a university degree in economics, finance, banking, business administration, auditing or accounting;

- each member of the bank's management board must have relevant qualifications and professional experience and at least four years' experience in the banking and finance sectors, including two years as a senior manager (head or deputy head of a structural unit);

- the director and deputy director of a branch and the head and deputy head of a department (service centre) of a bank must have relevant qualifications and professional experience and at least three years' experience in the banking and finance sectors, including one year as a senior manager (head or deputy head of a structural unit);

- the chief accountant and deputy chief accountant of the bank must have at least three years' experience working in the banking and finance sectors;

- the chief accountant and deputy chief accountant of a branch must have at least two years' experience working in the banking and finance sectors;

- a person to be appointed to the office of manager or senior personnel may not be a member of the supervisory board or the audit committee of the same bank and/or of any other commercial bank, non-bank depository institution – credit union or a member of the management board or other senior officer of any other enterprise;

- there should not be a request from the NBG to the supervisory board and/or the management board of a bank with respect to dismissal of the person to be appointed to such office from his or her current position;

- no member of the management board may be the spouse, child or other close relative of another member of the same bank's management board; and

- the chief accountant and deputy chief accountant of the bank or any branch of the bank may not be the spouse, child or close relative of a member of management board of the same bank or the same branch.

According to the Banking Law, a person may not serve as a member of the management board of a bank if he or she (a) does not meet the compliance criteria applicable to a director of a bank (described above); (b) is not authorised to hold a seat in the management board pursuant to law; (c) has been declared bankrupt; or (d) is a spouse, child or a close relative of a member of the management board of the same bank.

As an additional requirement, no one who: (a) has been declared legally incapable by the court; (b) has been convicted of grave or especially grave offence, terrorism financing and/or legalisation of illicit income or other economic crime; (c) has no relevant education and/or experience; or (d) is a director/senior officer or a member of the supervisory board of another commercial bank (except when this other bank is controlling or controlled by the bank), may be a manager or senior officer of a bank.

The compliance criteria listed in (a) to (d) in the paragraph above also apply to the members of the supervisory board of a bank. Furthermore, no person may be elected to the supervisory board of a bank who: (a) is a member of the supervisory board or the management board of more than seven enterprises registered in Georgia; (b) is a director/senior officer or a member of the supervisory board of another commercial bank registered in Georgia (except when this other bank is controlling or controlled by the bank); (c) is not authorised to hold a seat in the supervisory board pursuant to law; or (d) has been declared bankrupt.

The NBG is authorised to establish additional compliance criteria for members of the management board and supervisory board of a bank with a normative act.

Regulation of Holders of Commercial Bank Shares

Pursuant to the Banking Law, a person who has been convicted of grave or especially grave offence, terrorism financing and/or legalisation of illicit income or other economic crime, may not hold a significant shareholding (defined as more than 10% of either the authorised share capital or of the fully paid-up issued share capital held directly or indirectly) in a commercial bank. The NBG is authorised to establish additional compliance criteria for holders of significant shareholding with a normative act.

Pursuant to the Banking Law, a person who intends to acquire shares in a Georgian bank and who, as a result of the relevant acquisition, would hold or beneficially own more than 10%, 25% or 50% of the share capital of the bank, must submit a declaration to and obtain prior approval from, the NBG. Generally, the NBG should issue or deny its consent within one month from the date of submission of the declaration; however, if the information provided by the applicant is not satisfactory to the NBG, it may extend this term by up to three months.

A transaction by which a person acquires directly or indirectly more than 10% of the authorised share capital or fully paid-up issued share capital of a Georgian bank, without submission of a declaration to the NBG or despite the NBG's refusal, is deemed to be null and void.

If there are grounds for suspicion, the NBG may request a bank to submit a declaration about direct/indirect or beneficial holders of more than 10% of the authorised share capital or fully paid-up issued share capital of the bank. In this case, the NBG is entitled to temporarily or indefinitely suspend the voting rights of a relevant person or request that such person reduces his or her shareholding to 10%.

There are certain reporting obligations related to the ownership of a significant shareholding of a Georgian bank. Pursuant to the Banking Law, commercial banks are required to submit to the NBG, together with the annual report, information on the nominal and beneficial holders of more than 10% of the capital of the commercial bank.

Such information must be prepared in reliance on the information available to the commercial bank and the commercial bank must further note whether or not it confirms the accuracy thereof. In addition, in April of each year beneficial holders (direct or indirect) of more than 10% of the capital of a commercial bank are required to submit a declaration, setting out the level of their shareholding in the commercial bank as of December of the preceding year.

Regulatory Capital

The current minimum regulatory capital requirement for commercial banks as established by the NBG Order No. 144 dated 23 May 2006, is GEL 12.0 million. Under Georgian law, a commercial bank's "regulatory capital" comprises the sum of its Tier I and Tier II capital, less certain deductions, as defined in the Georgian FSA Order No. 9 dated 30 September 2008.

This relatively high regulatory capital requirement was intended by the NBG to encourage further consolidation in the Georgian banking sector, through the merger of small banks or their takeover by medium or large banks. The NBG is responsible for implementing anti-monopoly policy with respect to mergers and takeovers in the banking sector. The NBG has not set any limitations on the number of banks in the market and any investor which can meet the minimum regulatory capital requirements and satisfy all other requirements is eligible to receive a banking licence.

Anti-Money Laundering Legislation

The Law of Georgia on Facilitating Elimination of the Legalisation of Illegal Income (the "**Anti-Money Laundering Law**" or "**AML Law**") was adopted in June 2003 and came into force on 1 January 2004. The AML Law strengthened control over the movement of funds within Georgia and introduced a new independent public law entity, the FMS, to monitor and supervise anti-money laundering measures and to issue orders setting out further preventative measures and reporting requirements that should be complied with. The FMS operates as an independent body under the auspices of the NBG. The FMS conducts its activities in close cooperation with MONEYVAL (the anti-money laundering body of the Council of Europe, of which Georgia is a member) and in accordance with the Financial Action Task Force recommendations and EU directives, notwithstanding the fact that Georgia is not currently a member of either of the latter two bodies.

Under the AML Law, all banks are obliged to monitor and report to the FMS all suspicious transactions, irrespective of value, and certain types of transactions listed in the AML Law if the value of a transaction, or any group of transactions (where one transaction has been broken down into several component transactions), exceeds GEL 30,000 (or the foreign currency equivalent). If the FMS receives a report of a transaction that it believes may be related to the laundering of illicit income or the financing of terrorism, the report must be forwarded to the appropriate departments of the Office of the Prosecutor General of Georgia and the Ministry of Internal Affairs of Georgia.

In December 2005, Parliament adopted amendments to the Criminal Code of Georgia and the Criminal Procedure Code of Georgia to ensure that they were in compliance with the Council of Europe Strasbourg Convention of 1990 on "Laundering Search, Seizure and Confiscation of the Proceeds of Crime".

Georgia had no statutory KYC regulations until June 2008. Prior to that, in 2005 the NBG formally requested that banks conduct relationships with customers according to the "Core Principles for Effective Banking Supervision" ("**CPEBS**") published by the Basel Committee on Banking Supervision. Even before statutory KYC regulations were introduced, most banks employed compliance officers who adhered to CPEBS in practice. In its Georgian Banking System Development Strategy for 2006-2009, the NBG proposed introducing a mandatory KYC policy. In line with this proposal, on 13 June 2008, pursuant to an amendment to the Rule for Information Collecting, Systematizing, Processing and Reporting by the Commercial Banks, the FMS introduced rules which require commercial banks to follow mandatory KYC policies and procedures. In January 2012, the FMS replaced the above-mentioned Rule with a new rule, which provides further details on KYC policies to be applied by commercial banks.

The NBG is authorised to carry out on-site inspections of anti-money laundering issues and has dedicated budget and personnel to carry out such inspections and report to the FMS on breach of any anti-money laundering regulations.

Insolvency Regime

The NBG is entitled to revoke the banking licence of any bank that becomes insolvent. Upon revocation of its licence, the bank is liquidated in accordance with the procedure set forth in the Banking Law. If the liquidated commercial bank was a payment system operator or a settlement agent, upon appointment, the liquidator must settle transfer orders received by the system prior to his appointment, establish settlement positions of the system participants and execute settlement in accordance with Payment Systems Law, as applicable. In the process of liquidation of a commercial bank, creditors holding financial collateral are entitled to the preferential satisfaction of their claim secured by such financial collateral. During the liquidation period, any secured claims will be repaid to the bank's creditors in accordance with the terms of the relevant security agreement (up to the value of the security). All other legitimate claims will be settled in the following order:

- *first*: all claims of the NBG and other lenders which arose after revocation of the bank's licence;
- *second*: amounts on the accounts of natural persons not exceeding GEL 1,500;
- *third*: amounts on the accounts of natural persons not paid under the second item above;
- *fourth*: amounts on the accounts of legal entities;
- *fifth*: indebtedness to the State Budget, including claims secured by tax liens; and
- *sixth*: all other claims against the bank.

If the available funds are insufficient to fully cover all claims listed in the second, third, fourth and fifth categories above, all of the claims of each creditor within the relevant category shall be paid on a pro rata basis and the claims of the subsequent category shall be paid only after the claims of the previous category have been fully paid.

Deposit Insurance

There is currently no mandatory deposit insurance scheme in Georgia. According to the Georgian Banking System Development Strategy for 2006-2009, the NBG had plans to introduce mandatory deposit insurance in order to enhance public trust in the Georgian banking sector. As of the date of this Prospectus, a mandatory deposit insurance scheme has not been implemented and no timetable exists as to when such a mandatory scheme will be introduced. It is anticipated that certain banks with insufficient financial strength would need to be closed or merged before the introduction of the scheme to minimise the risk of immediate depletion of the deposit insurance fund.

Reform of the Banking Sector

In its Georgian Banking System Development Strategy for 2006-2009, the NBG had set out a number of objectives which it considered to be important to the further development of the banking system in Georgia. Some of the key targets for 2009 included: (i) the development of a mandatory deposit insurance system to insure all deposits in the amount of GEL 3,000-5,000 (or the foreign currency equivalent); (ii) the creation of a credit history agency; (iii) the amendment of the Banking Law to improve compliance criteria for significant shareholders in Georgian banks (holding 10% or more); (iv) application of prudential regulations in a manner consistent with Basel I; (v) improvement of the principles of capital adequacy calculation; and (vi) amendment of legislation to develop financial and capital markets. The NBG (and the Georgian FSA while it existed) has taken certain steps aimed at implementing targets listed in items (iii)-(vi); however, a lot remains to be achieved in this regard. The NBG has not yet issued a document describing the banking system development strategy for the coming years.

The NBG has however undertaken to draft the new Regulation on Basel II / III Capital Adequacy Requirements for Commercial Banks, which will, when adopted, supersede the existing capital adequacy regulations of the NBG. Under the draft regulations, the capital adequacy requirements applicable to banks will be based on the three pillars' principle as defined in the Basel II / III capital adequacy framework, as adjusted in certain circumstances at the discretion of the national regulator. The draft regulations also provide for division of the regulatory capital into Tier I capital and Tier II capital. Tier I comprises the primary Tier I capital and additional

Tier I capital and includes classification criteria for various instruments, and inclusion of newly issued instruments into the regulatory capital of a local commercial bank will be subject to NBG consent and must comply with the following mandatory levels requirements in respect of their own funds: (i) ratio of the primary tier I capital to risk weighted risk positions – 7.0%; (ii) ratio of the tier I capital to risk weighted risk positions – 8.5%; and (iii) ratio of the regulatory capital to risk weighted risk positions – 10.5%. Risk position is defined as an asset and/or off-balance sheet element and the draft regulation includes a detailed description of the rules for calculation of the risk positions weighted against applicable risks (credit, market and operational risks). In addition, during the phase out period (2013-2016), apart from new capital adequacy requirements, commercial banks will also be required to continue observing minimum requirements set forth by the Georgian FSA Order No. 9 dated 30 September 2008.

The Payment Systems Law has recently been implemented, which, among other matters, regulates payment systems, payment services and settlement operations. Relevant amendments have also been made to the Banking Law in relation to the authorisation of commercial banks engaging in the provision of such payment systems, payment services and settlement operations. The NBG has been granted the authority to supervise these matters.

DEFINITIONS

1995 NBG Law	Old law of Georgia on the National Bank of Georgia adopted on 23 June 1995
2008 Conflict	The armed conflict between Georgia and Russia that broke out in August 2008
ADB	Asian Development Bank
ALCO	Asset and Liability Management Committee
AML	Anti-money laundering
Anti-Money Laundering Law or AML Law	The Law of Georgia on Facilitating Elimination of the Legalisation of Illegal Income adopted on 6 June 2003
Audited Financial Statements	The Group's audited consolidated financial statements as of and for the for the years ended 31 December 2012, 2011 and 2010
Bank, Bank of Georgia	Joint Stock Company Bank of Georgia
Bank Management Board	The management board of the Bank
Bank Supervisory Board	The supervisory board of the Bank
Banking Law	Law of Georgia on the Activities of Commercial Banks, adopted on 23 February 1996
Basel Committee	Basel Committee on Banking Supervision is an institution created by the central bank governors of the group of ten nations ("**G10**"), which has developed a set of recommended market practices of financial risk management in the banking sector, security and minimal capital requirements for banks. The Basel Committee's most important documents are the Capital Accord of 1988 and its expanded and updated version known as Basel II, The New Capital Accord
Basel I	The Basel Committee's Capital Accord of 1988
Basel II	New Capital Accord published by the Basel Committee
Basel III	A sequence of major reforms to Basel II
BCI	Joint Stock Company Insurance Company BCI
BCI Pension Scheme	The Bank's defined contribution pension scheme, operated through ABCI
BG Capital	JSC BG Capital
BGH	Bank of Georgia Holdings Plc
BGH Directors	The directors of BGH
BGH Shares	The entire issued share capital of BGH from time to time
BYR	The lawful currency of the Republic of Belarus
CAGR	Compound annual growth rate
Certificates	Registered certificates representing the Notes
CIG	Joint Stock Company Credit Information Georgia
Closing Date	On or about 6 November 2013
Council	Council of the European Union
CPEBS	"Core Principles for Effective Banking Supervision" published by the Basel Committee on Banking Supervision
CPI	Consumer price index
CRA Regulation	Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies
Credit Committees	The credit committees of the Bank
Credit Policies	The Bank's credit policies and procedures and other internal documents setting out the Bank's established procedures for approving loans,

	monitoring loan quality and for extending, refinancing and/or restructuring existing loans.
Definitive Certificates............................	Regulation S Definitive Certificates and Rule 144A Definitive Certificates
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
DFIs..	Development financial institutions established (or chartered) by more than one country which are subject to international law and whose owners or shareholders are generally national governments, including, among others, EBRD and IFC
DTC...	The Depositary Trust Company
EY..	Ernst & Young LLC
EBRD	European Bank for Reconstruction and Development
EECP...	Executive Equity Compensation Plan
EGM..	Extraordinary GMS
EU..	European Union
EURIBOR...	Euro interbank offered rate
Executive Officers.................................	The Bank's executive officers
Existing Notes.......................................	The US$250,000,000 7.75% Notes due 2017 issued on 5 July 2012
Euroclear	Euroclear Bank S.A./N.V.
Euros, Euro, €	The lawful currency of the European Economic and Monetary Union
FCA	The UK Financial Conduct Authority (formerly known as the Financial Services Authority)
FDI	Foreign direct investment
Financial Statements	The Audited Financial Statements and the Interim Financial Statements
Further Notes	The US$150,000,000 7.75% Notes due 2017 to be issued on the Closing Date
FMO...	Nederlandse Financierings-Maatschappij voor ontwikkelingslanden N.V.
FMS...	Financial Monitoring Service
Georgian FSA..	The Georgian Financial Supervisory Authority
GBP, pounds sterling, £..........................	The lawful currency of the United Kingdom
GDRs...	Global depository receipts
GDP...	Gross domestic product
Georgian Card	JSC Georgian Card
Geostat..	Legal Entity of Public Law National Statistics Office of Georgia
GLC	Joint Stock Company Georgian Leasing Company
Global Certificates, Global Notes..........	Regulation S Global Certificate and Rule 144A Global Certificate
GMS..	General Meeting of Shareholders of the Bank
Group...	The Bank and its subsidiaries and affiliates taken as a whole
GTAM...	Galt and Taggart Asset Management, Georgia LLC
HUF	The lawful currency of People's Republic of Hungary
IAS	International Accounting Standards
IASB..	International Accounting Standards Board
IFC	International Finance Corporation
IFRS..	International Financial Reporting Standards
ILS	The lawful currency of Israel
IMF	International Monetary Fund
Interim Financial Statements.................	The Group's reviewed interim consolidated financial statements as of and for the for the three months ended 30 June 2013 and 2012

ISA	International Standards on Auditing
Issuer	Joint Stock Company Bank of Georgia
Joint Lead Managers	J.P. Morgan Securities plc and Merrill Lynch International
KYC	Know your customer
Lari, GEL	The lawful currency of Georgia
Law of Entrepreneurs	Law of Georgia on Entrepreneurs adopted on 28 October 1994
Liberty Consumer	JSC Liberty Consumer
Listing Rules	The rules and regulations made by the FCA in its capacity as the UK Listing Authority under FSMA, and contained in the UK Listing Authority's publication of the same name
LSE	London Stock Exchange plc
LIBOR	London interbank offered rate
Management	The Bank's Supervisory Board and Management Board
Market	The London Stock Exchange's Regulated Market
Moody's	Moody's Investors Service, Inc.
My Family Clinic	Joint Stock Company My Family Clinic
NBG	National Bank of Georgia
NBG Law	A new Organic Law of Georgia on the National Bank of Georgia, adopted on 24 September 2009
NBRB	National Bank of the Republic of Belarus
NBU	National Bank of Ukraine
New York Convention	United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards
NIS	The lawful currency of Israel
Noteholders	Holders of Notes
Notes	The Further Notes and the Existing Notes
OECD	Organisation for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control of the US Department of the Treasury
Official List	The UK Listing Authority's Official List
OPIC	Overseas Private Investment Corporation
P&C	Property and casualty
POS	Point-of-sale
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of November 4, 2003
Prospectus Rules	the Prospectus Rules of the FCA published under Section 73A(4) of the FSMA
Qualified Institutional Buyers, QIBs	Qualified Institutional Buyers as defined in Rule 144A
Regulation S	Regulation S under the US Securities Act
Regulation S Notes	Notes that are being offered and sold in accordance with Regulation S
Regulation S Definitive Certificates	Definitive notes in respect of beneficial interests in the Regulation S Global Certificate
Regulation S Global Certificate, Regulation S Global Note	Global certificate representing the Regulation S Notes
Renegotiated Loans	Loans that would otherwise be overdue or impaired whose terms (including as to principal and interest payment) have been renegotiated due to the borrower's existing or possible inability to pay
ROE	Return on equity

ROAE	Return on average equity, an adjusted version of the ROE measure of profitability, in which the denomination is average shareholders' equity rather than shareholders' equity
Rule 144A	Rule 144A under the US Securities Act
Rule 144A Notes	Notes that are offered and sold in reliance on Rule 144A
Rule 144A Definitive Certificates	Definitive notes in respect of beneficial interests in the Rule 144A Global Certificate
Rule 144A Global Certificate, Rule 144A Global Note	Restricted global certificate representing beneficial interests in Rule 144A Notes
Securities and Exchange Commission	United States Securities and Exchange Commission
SEECP	Senior Executive Equity Compensation Plan
SME	Small and medium enterprise
Stabilising Manager	J.P. Morgan Securities plc
Standard & Poor's	Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc.
Teliani Valley	Joint Stock Company Teliani Valley
Tender Offer	Tender offer launched in December 2011 by BGH to acquire the entire issued and to be issued share capital, including those shares represented by GDRs, of the Bank
Trust	Rubicon Executive Equity Compensation Trust
Trustee	Citibank N.A., London Branch
UAH	The lawful currency of Ukraine
UK Court	High Court of Justice of England and Wales
U.K. Listing Authority, UKLA	United Kingdom Financial Conduct Authority acting as the competent authority under Part VI of the UK Financial Services and Markets Act 2000. In this role, the United Kingdom Financial Conduct Authority is a securities regulator, focused on the companies which issue the securities traded in financial markets.
US dollars, dollars, US$	The US dollar, the lawful currency of the United States of America
US Exchange Act	United States Securities Exchange Act 1934, as amended
US Securities Act, Securities Act	United States Securities Act 1933, as amended
US	United States of America
VAR	Value at risk
WIPO	World Intellectual Property Organisation

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

30 June 2013

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SELECTED EXPLANATORY NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 2013, comprising of the interim condensed consolidated statement of financial position as at 30 June 2013 and the related interim condensed consolidated income statements and statements of comprehensive income, interim condensed consolidated statements of changes in equity and of 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 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 interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

9 October 2013

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

(Thousands of Georgian Lari)

	Notes	*As at* *30 June 2013* *Unaudited*	*31 December 2012*
Assets			
Cash and cash equivalents	5	538,285	750,517
Amounts due from credit institutions	6	326,537	396,559
Investment securities available-for-sale	7	727,153	534,698
Loans to customers	8	3,107,988	3,033,667
Finance lease receivables		27,232	71,686
Investments in associates		–	2,441
Investment properties	9	169,722	160,353
Property and equipment		447,205	430,877
Intangible assets		24,039	23,078
Goodwill		45,657	45,657
Current income tax assets		1,707	944
Deferred income tax assets		14,234	14,352
Prepayments		30,130	41,147
Other assets		297,655	221,042
Total assets		**5,757,544**	**5,727,018**
Liabilities			
Amounts due to customers	10	2,852,772	2,693,025
Amounts due to credit institutions	11	1,475,686	1,657,162
Current income tax liabilities		6,242	13,818
Deferred income tax liabilities		57,116	48,320
Provisions		483	683
Other liabilities		184,329	184,224
Total liabilities		**4,576,628**	**4,597,232**
Equity	12		
Share capital		36,513	36,513
Additional paid-in capital		602,291	615,627
Treasury shares		(464)	(464)
Other reserves		45,133	25,821
Retained earnings		447,402	408,538
Total equity attributable to shareholders of the Group		**1,130,875**	**1,086,035**
Non-controlling interests		50,041	43,751
Total equity		**1,180,916**	**1,129,786**
Total liabilities and equity		**5,757,544**	**5,727,018**

Signed and authorised for release on behalf of the Board of Directors of the Group:

Irakli Gilauri Chief Executive Officer

David Vakhtangishvili Chief Financial Officer

9 October 2013

The accompanying selected explanatory notes on pages 7 to 27 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2013

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2013 Unaudited	For the six months ended 30 June 2012 Unaudited
Interest income			
Loans to customers		260,047	244,965
Investment securities – available-for-sale		17,642	17,806
Amounts due from credit institutions		4,945	9,624
Finance lease receivables		3,208	4,133
		285,842	**276,528**
Interest expense			
Amounts due to customers		(85,538)	(103,765)
Amounts due to credit institutions		(49,625)	(34,047)
		(135,163)	**(137,812)**
Net interest income before net losses from interest rate swaps		**150,679**	**138,716**
Net losses from interest rate swaps		(185)	(1,053)
Net interest income		**150,494**	**137,663**
Fee and commission income		54,898	51,477
Fee and commission expense		(12,543)	(9,485)
Net fee and commission income	14	**42,355**	**41,992**
Net insurance premiums earned		64,289	32,383
Net insurance claims incurred		(41,565)	(20,426)
Net insurance revenue		**22,724**	**11,957**
Healthcare revenue		27,489	22,587
Cost of healthcare services		(18,498)	(13,391)
Net healthcare revenue		**8,991**	**9,196**
Revenue from sale of goods		16,564	11,785
Cost of sales		(11,486)	(6,425)
Net revenue from sale of goods		**5,078**	**5,360**
Net gains from trading securities and investment securities available-for-sale		2,590	953
Net gains from revaluation of investment properties		4,842	–
Net gains from foreign currencies:			
– dealing		21,134	17,187
– translation differences		116	9,014
Other operating income		4,004	6,132
Other operating non-interest income		**32,686**	**33,286**
Revenue		**262,328**	**239,454**
Salaries and other employee benefits		(64,429)	(57,329)
General and administrative expenses		(28,461)	(33,627)
Depreciation and amortization		(13,339)	(13,919)
Other operating expenses		(1,441)	(3,554)
Operating expenses		**(107,670)**	**(108,429)**
Operating income before cost of credit risk		**154,658**	**131,025**

The accompanying selected explanatory notes on pages 7 to 27 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the six months ended 30 June 2013

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2013	2012
		Unaudited	*Unaudited*
Operating income before cost of credit risk		**154,658**	**131,025**
Impairment charge on loans to customers		(20,271)	(13,001)
Impairment charge on finance lease receivables		(2,704)	(241)
Impairment charge on other assets and provisions	15	(13,286)	(705)
Cost of credit risk		**(36,261)**	**(13,947)**
Net operating income		**118,397**	**117,078**
Net non-operating expenses		(5,453)	(12,393)
Profit before income tax expense		**112,944**	**104,685**
Income tax expenses		(16,239)	(17,542)
Profit for the period		**96,705**	**87,143**
Attributable to:			
– shareholders of the Group		93,701	86,158
– non-controlling interests		3,004	985
		96,705	**87,143**
Earnings per share:	12		
– basic earnings per share		2.5992	2.4786
– diluted earnings per share		2.5992	2.4668

The accompanying selected explanatory notes on pages 7 to 27 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 2013

(Thousands of Georgian Lari)

	For the six months ended 30 June	
	2013	***2012***
	Unaudited	*Unaudited*
Profit for the period	**96,705**	**87,143**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
– Revaluation of investment securities available-for-sale	31,285	14,168
– Realised gain on investment securities available-for-sale reclassified to the consolidated income statement	(2,514)	(844)
– Loss from currency translation differences	(7,216)	(909)
Income tax benefit relating to components of other comprehensive income	(3,328)	(1,324)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**18,227**	**11,091**
Total comprehensive income for the period	**114,932**	**98,234**
Attributable to:		
– shareholders of the Group	111,749	97,793
– non-controlling interests	3,183	441
	114,932	**98,234**

The accompanying selected explanatory notes on pages 7 to 27 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 2013

(Thousands of Georgian Lari)

	Attributable to shareholders of the Group							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2011	**32,878**	**473,732**	**(3,146)**	**14,478**	**254,588**	**772,530**	**40,073**	**812,603**
Total comprehensive income (loss) for the six months ended 30 June 2012 (unaudited)	–	–	–	15,057	82,736	97,793	441	98,234
Depreciation of revaluation reserve, net of tax	–	–	–	(297)	297	–	–	–
Share-based payments effect on equity	–	26,156	602	–	–	26,758	–	26,758
Issue of share capital (Note 12)	3,635	70,313	–	–	–	73,948	–	73,948
Conversion of shares following the Tender Offer (Note 12)	–	54,460	2,507	–	–	56,967	–	56,967
Transactions costs recognised directly in equity	–	(3,325)	–	–	–	(3,325)	–	(3,325)
Dividends to shareholders of the Group (Note 12)	–	–	–	–	(25,267)	(25,267)	–	(25,267)
Acquisition of additional interest in existing subsidiary by non-controlling shareholders	–	–	–	–	–	–	749	749
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	252	252
Sale of treasury shares	–	89	5	–	–	94	–	94
Purchase of treasury shares	–	(9,853)	(432)	–	–	(10,285)	–	(10,285)
30 June 2012 (unaudited)	**36,513**	**611,572**	**(464)**	**29,238**	**312,354**	**989,213**	**41,515**	**1,030,728**
31 December 2012	**36,513**	**615,627**	**(464)**	**25,821**	**408,538**	**1,086,035**	**43,751**	**1,129,786**
Total comprehensive income for the six months ended 30 June 2013 (unaudited)	–	–	–	19,569	92,180	111,749	3,183	114,932
Depreciation of revaluation reserve, net of tax	–	–	–	(267)	267	–	–	–
Increase in share capital arising from share-based payments	–	9,708	–	–	–	9,708	–	9,708
Vesting of Shares	–	(23,044)	–	–	–	(23,044)	–	(23,044)
Dividends to shareholders of the Group (Note 12)	–	–	–	–	(53,583)	(53,583)	–	(53,583)
Dilution of interests in subsidiaries, through issuance of new shares	–	–	–	–	–	–	150	150
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	10	–	10	2,957	2,967
30 June 2013 (unaudited)	**36,513**	**602,291**	**(464)**	**45,133**	**447,402**	**1,130,875**	**50,041**	**1,180,916**

The accompanying selected explanatory notes on pages 7 to 27 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 2012

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2013	2012
		Unaudited	*Unaudited*
Cash flows from (used in) operating activities			
Interest received		276,486	267,803
Interest paid		(131,716)	(130,405)
Fees and commissions received		54,898	51,477
Fees and commissions paid		(12,543)	(9,485)
Insurance premiums received		64,289	32,383
Insurance claims paid		(41,565)	(20,426)
Healthcare revenue received		27,489	22,587
Cost of healthcare services paid		(18,498)	(13,391)
Revenue received from sale of goods		16,564	11,785
Cost of sales of goods		(11,486)	(6,425)
Net realised gains from trading securities		76	109
Net realised gains from investment securities available-for-sale		2,514	844
Net realised gains from foreign currencies		21,134	17,187
Recoveries of previously written off loans to customers and finance lease receivables		17,033	16,028
Other operating expense paid		(515)	(3,573)
Salaries and other employee benefits paid		(62,125)	(61,247)
General and administrative expenses paid		(37,495)	(41,347)
Cash flows from operating activities before changes in operating assets and liabilities		**164,540**	**133,904**
Net (increase) decrease in operating assets			
Amounts due from credit institutions		69,869	(45,626)
Loans to customers		(130,316)	(360,192)
Finance lease receivables		(517)	(3,342)
Prepayments and other assets		(20,263)	(18,927)
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions		(181,579)	(3,737)
Amounts due to customers		156,218	101,668
Other liabilities		7,836	(18,132)
Net cash flows from operating activities before income tax		**65,788**	**(214,384)**
Income tax paid		(16,624)	(1,409)
Net cash flows from operating activities		**49,164**	**(215,793)**
Cash flows from (used in) investing activities			
Acquisition of subsidiaries, net of cash acquired		–	(7,946)
Purchase of investment securities available-for-sale		(235,616)	(145,851)
Proceeds from sale of investment securities available-for-sale		48,423	148,628
Proceeds from sale of investment properties	9	9,726	10,205
Purchase of property and equipment and intangible assets		(30,632)	(29,276)
Net cash flows used in investing activities		**(208,099)**	**(24,240)**
Cash flows (used in) from financing activities			
Dividends paid	12	(53,583)	(25,267)
Purchase of treasury shares		–	(10,285)
Sale of treasury shares		–	94
Proceeds from sale of non-controlling interest in existing subsidiaries, net of cash acquired		–	749
Net cash used in financing activities		**(53,583)**	**(34,709)**
Effect of exchange rates changes on cash and cash equivalents		286	(5,464)
Net decrease in cash and cash equivalents		**(212,232)**	**(280,206)**
Cash and cash equivalents, beginning	5	**750,517**	**628,731**
Cash and cash equivalents, ending	5	**538,285**	**348,525**

The accompanying selected explanatory notes on pages 7 to 27 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. 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 accepts deposits from the public and extends credit, transfers payments in Georgia and internationally and exchanges currencies. Its main office is in Tbilisi, Georgia. At 30 June 2013 the Bank has 197 operating outlets in all major cities of Georgia (31 December 2012: 194). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

The Bank is the parent of a group of companies incorporated in Georgia and Belarus. Primary business activities include providing banking, leasing, insurance, healthcare, brokerage and investment management services, to corporate and individual customers.

In December 2011, Bank of Georgia Holdings PLC ("BGH"), a public limited liability company newly incorporated in England and Wales, launched the Tender Offer (the "Tender Offer") to exchange its entire ordinary share capital for an equivalent number of the Bank's ordinary shares and thus to acquire the entire issued and to be issued share capital, including those shares represented by Global Depositary Receipts ("GDRs"), of the Bank. Following the successful completion of the Tender Offer on 28 February 2012 and subsequent acquisitions of the Bank's remaining shares held by non-controlling shareholders by the Bank, BGH holds 99.62% of the share capital of the Bank as at 30 June 2013, representing the Bank's ultimate parent company.

As at 30 June 2013 and 31 December 2012 the following shareholders owned more than 4% of the outstanding shares of the Group. Other shareholders individually owned less than 4% of the outstanding shares.

Shareholder	***30 June 2013, %***	***31 December 2012, %***
Bank of Georgia Holdings Plc	99.62%	99.62%
Others	0.38%	0.38%
Total	**100.00%**	**100.00%**

2. Basis of Preparation

General

The interim condensed consolidated financial statements for the six months ended 30 June 2013 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting. The Group's annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

The Group's interim condensed consolidated financial statements for the six months ended 30 June 2013 are a continuation of the existing group of JSC Bank of Georgia and its subsidiaries.

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 and for the year ended 31 December 2012.

These interim condensed consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), except per share amounts and unless otherwise indicated.

Having made enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future, a period of at least 12 months from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the interim condensed financial statements.

In these interim condensed consolidated financial statements income tax expense is based on management's best estimates of the effective annual income tax rate expected for the full financial year. Costs that occur unevenly during the financial year are anticipated or deferred in the interim condensed consolidated financial statements only if it is also appropriate to anticipate or defer such costs at the end of the financial year.

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies

Changes in accounting policies

The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group as at and for the year ended 31 December 2012, except for the changes introduced due to adoption/early adoption of new and/or revised standards and interpretations as of 1 January 2013, noted below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the "third balance sheet") must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim condensed financial statements do not include a third balance sheet.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 Financial Instruments: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements for the Group, as there are no tax consequences attached to cash or non-cash distribution.

IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The Group provides this disclosure as total segment assets and liabilities were reported to the chief operating decision maker. See Note 4.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The amendments had no impact on the Group's financial position or performance.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group does not offset financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. The application of this new standard had no impact on the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they are provided. Accordingly, the Group has not made such disclosures.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements period. The Group provides these disclosures in Note 16.

In addition to the above-mentioned amendments and new standards, IFRS 1 First-time Adoption of International Financial Reporting Standards was amended with effect for reporting periods starting on or after 1 January 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

Functional and reporting currencies and foreign currency translation

The interim condensed consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency. The Bank's functional currency is US Dollar. Each entity in the Group determines its own functional currency and items included in the interim condensed financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing) of the Bank. The official NBG exchange rates at 30 June 2013 and 31 December 2012 were:

	Lari to GBP	*Lari to USD*	*Lari to EUR*	*Lari to BYR (10,000)*
30 June 2013	2.5160	1.6509	2.1566	1.8782
31 December 2012	2.6653	1.6567	2.1825	1.9811

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and, their income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(Thousands of Georgian Lari)

4. Segment Information

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

Retail Banking (excluding Retail Banking of BNB) - Principally providing consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services, and handling customers' deposits for both, individuals as well as legal entities, encompassing mass affluent segment, retail mass markets, small & medium enterprises and micro businesses.

Corporate Banking (excluding Corporate Banking of BNB) - Principally providing loans and other credit facilities to large VIP as well as other legal entities, larger than SME and Micro, finance lease facilities provided by Georgian Leasing Company LLC, as well as providing funds transfers and settlement services, trade finance services and documentary operations support, handling saving and term deposits for corporate and institutional customers.

Investment Management - Principally providing private banking services to resident as well as non-resident wealthy individuals as well as their direct family members by ensuring individually distinguished approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or holding their savings and term deposits; Investment Management involves providing wealth and asset management services to same individuals through different investment opportunities and specifically designed investment products.

Corporate Centre - Principally providing back office services to all operating segments of the Group as well as holding all principal investments in subsidiaries.

Insurance - Principally providing wide-scale non-life insurance services to corporate clients and insured individuals.

Healthcare - Principally providing wide-scale healthcare services to clients and insured individuals.

Affordable Housing - Comprising JSC M2 Real Estate, principally developing and selling affordable residential apartments and also, holding investment properties repossessed by the Bank from defaulted borrowers and managing those properties.

BG Capital - Principally providing brokerage, custody and corporate finance services, mostly to wealthy or mass affluent individuals as well as to corporate customers.

BNB - Comprising JSC Belarusky Narodny Bank, principally providing retail and corporate banking services in Belarus.

Liberty Consumer - Principally holding private equity investments in several non-core business enterprises, such as winery, fitness centre, travel agencies, regional car dealership, hotels and restaurants management chain and other smaller investments, all designated for disposal.

Other - Comprising JSC Galt & Taggart Holding Georgia, a shell company, principally holding investments in subsidiaries of the Bank on behalf of the Bank.

For purposes of further consolidation of these operating segments and for more comprehensive presentation in these interim condensed consolidated financial statements, management has further grouped them into large segments, classified as: Strategic, Synergistic and Non-Core.

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 in the same manner as profit or loss in the interim condensed consolidated financial statements.

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

(Thousands of Georgian Lari)

4. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as at and for the six months ended 30 June 2013 (unaudited):

	Strategic				*Synergistic*				*Non-Core*				
	Corporate banking	*Retail banking*	*Investment management*	*Corporate center*	*Insurance*	*Healthcare*	*Affordable Housing*	*BG Capital*	*BNB**	*Liberty Consumer*	*Other*	*Inter – segment transactions and balances*	*Total*
Net interest income (expense)	50,460	91,064	4,553	–	1,357	(6,267)	1,037	302	8,370	(270)	(1,355)	1,243	150,494
Net fees and commission income (expense)	14,372	25,322	284	–	87	(188)	(18)	533	2,802	(18)	–	(821)	42,355
Net insurance revenue	–	–	–	–	17,670	–	–	–	–	–	–	5,054	22,724
Net healthcare revenue	–	–	–	–	–	15,469	–	–	–	–	–	(6,478)	8,991
Net revenue from sale of goods	–	–	–	–	–	–	209	–	–	4,869	–	–	5,078
Net gains (losses) from foreign currencies	12,536	7,063	774	–	(205)	238	(44)	(18)	1,388	(59)	(423)	–	21,250
Other revenue	3,256	2,658	27	–	396	869	5,432	77	43	6	712	(2,040)	11,436
Revenue	**80,624**	**126,107**	**5,638**	**–**	**19,305**	**10,121**	**6,616**	**894**	**12,603**	**4,528**	**(1,066)**	**(3,042)**	**262,328**
Operating expenses	(20,855)	(60,514)	(2,659)	–	(8,035)	(6,565)	(1,103)	1	(6,689)	(3,017)	(1,278)	3,044	(107,670)
Operating income before cost of credit risk	**59,769**	**65,593**	**2,979**	**–**	**11,270**	**3,556**	**5,513**	**895**	**5,914**	**1,511**	**(2,344)**	**2**	**154,658**
Cost of credit risk	(17,191)	(17,470)	262	–	(631)	(789)	66	–	(626)	–	–	118	(36,261)
Net operating income	**42,578**	**48,123**	**3,241**	–	**10,639**	**2,767**	**5,579**	**895**	**5,288**	**1,511**	**(2,344)**	**120**	**118,397**
Net non-operating (expenses) income	(1,016)	(540)	(25)	–	–	–	(493)	159	(790)	(2,748)	–	–	(5,453)
Profit before income tax expense	**41,562**	**47,583**	**3,216**	–	**10,639**	**2,767**	**5,086**	**1,054**	**4,498**	**(1,237)**	**(2,344)**	**120**	**112,944**
Income tax expense	(5,973)	(6,016)	(402)	–	(1,733)	(224)	(662)	(197)	(1,239)	(148)	355	–	(16,239)
Profit for the period	**35,589**	**41,567**	**2,814**	–	**8,906**	**2,543**	**4,424**	**857**	**3,259**	**(1,385)**	**(1,989)**	**120**	**96,705**
Assets and liabilities													
Total assets	2,566,385	2,549,836	20,731	–	176,468	190,877	124,842	19,757	230,344	38,949	33,692	(194,337)	5,757,544
Total liabilities	1,969,197	1,641,012	624,207	–	132,010	128,842	56,330	12,756	174,456	15,735	18,031	(195,948)	4,576,628
Other segment information													
Property and equipment	1,383	12,732	154	–	543	22,209	–	2	364	227	1	–	37,615
Intangible assets	402	2,555	32	–	841	125	–	–	44	9	1	–	4,009
Capital expenditure	**1,785**	**15,287**	**186**	–	**1,384**	**22,334**	–	**2**	**408**	**236**	**2**	**–**	**41,624**
Depreciation	(1,364)	(8,105)	(148)	–	(425)	(24)	(24)	(7)	(789)	(508)	(30)	–	(11,424)
Amortization	(233)	(1,499)	(18)	–	(109)	–	(1)	–	(54)		(1)	–	(1,915)

**** JSC Belarusky Narodny Bank (BNB).***

(Thousands of Georgian Lari)

4. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments for the six months ended 30 June 2012 (unaudited) and as at 31 December 2012:

	Strategic				*Synergistic*				*Non-Core*			*Inter – segment transactions and balances*	*Total*
	Corporate banking	*Retail banking*	*Investment management*	*Corporate center*	*Insurance*	*Healthcare*	*Affordable Housing*	*BG Capital*	*BNB**	*Liberty Consumer*	*Other*		
Net interest income (expense)	45,668	83,226	6,550	–	489	(2,245)	(1,363)	226	5,494	(382)	–	–	137,663
Net fees and commission income (expense)	14,469	25,505	230	–	–	–	–	294	1,494	–	–	–	41,992
Net insurance revenue	–	–	–	–	10,663	–	–	–	–	–	–	1,294	11,957
Net healthcare revenue	–	–	–	–	–	11,524	–	–	–	–	–	(2,328)	9,196
Net revenue from sale of goods	–	–	–	–	–	–	–	–	–	5,360	–	–	5,360
Net gains (losses) from foreign currencies	16,035	6,230	380	–	111	1	(107)	(104)	3,761	(106)	–	–	26,201
Other revenue	2,665	2,894	40	–	(716)	613	1,040	205	92	428	182	(358)	7,085
Revenue	**78,837**	**117,855**	**7,200**	–	**10,547**	**9,893**	**(430)**	**621**	**10,841**	**5,300**	**182**	**(1,392)**	**239,454**
Operating expenses	(25,337)	(55,267)	(1,924)	–	(6,520)	(7,314)	(1,861)	(646)	(4,738)	(5,793)	(419)	1,390	(108,429)
Operating income before cost of credit risk	**53,500**	**62,588**	**5,276**	–	**4,027**	**2,579**	**(2,291)**	**(25)**	**6,103**	**(493)**	**(237)**	**(2)**	**131,025**
Cost of credit risk	(1,541)	(11,139)	1	–	(238)	–	(68)	–	(1,265)	(127)	–	430	(13,947)
Net operating income	**51,959**	**51,449**	**5,277**	–	**3,789**	**2,579**	**(2,359)**	**(25)**	**4,838**	**(620)**	**(237)**	**428**	**117,078**
Net non-operating expenses	(4,568)	(3,869)	(126)	–	–	–	(2)	1	(210)	(3,619)	–	–	(12,393)
Profit before income tax (expense) benefit	**47,391**	**47,580**	**5,151**	–	**3,789**	**2,579**	**(2,361)**	**(24)**	**4,628**	**(4,239)**	**(237)**	**428**	**104,685**
Income tax (expense) benefit	(7,822)	(7,389)	(799)	–	(564)	(374)	354	(40)	(1,152)	228	16	–	(17,542)
Profit for the period	**39,569**	**40,191**	**4,352**	–	**3,225**	**2,205**	**(2,007)**	**(64)**	**3,476**	**(4,011)**	**(221)**	**428**	**87,143**
Assets and liabilities													
Total assets	2,604,889	2,513,397	43,169	6,368	186,717	170,415	105,899	22,394	185,859	37,924	34,986	(184,999)	5,727,018
Total liabilities	1,975,189	1,709,727	605,183	1,354	151,287	113,203	42,838	16,431	139,356	12,114	17,043	(186,493)	4,597,232
Other segment information													
Property and equipment	2,050	6,556	154	–	3,678	13,740	270	193	171	823	–	–	27,635
Intangible assets	305	1,005	17	–	60	–	20	2	80	152	–	–	1,641
Capital expenditure	**2,355**	**7,561**	**171**	–	**3,738**	**13,740**	**290**	**195**	**251**	**975**	–	–	**29,276**
Depreciation	(2,141)	(7,262)	(159)	–	(334)	(1,306)	(95)	(9)	(382)	(492)	–	–	(12,180)
Amortization	(322)	(1,284)	(17)	–	(38)	–	–	(2)	(68)	(8)	–	–	(1,739)
Impairment	(1,161)	(930)	(30)	–	–	–	–	–	–	(899)	–	–	(3,020)
Investments in associates	–	–	–	–	–	–	–	–	–	2,441	–	–	2,441
Share of profit of associates	–	–	–	–	–	–	–	–	–	(143)	–	–	(143)

**** JSC Belarusky Narodny Bank (BNB).***

(Thousands of Georgian Lari)

5. Cash and Cash Equivalents

	30 June 2013 (unaudited)	*31 December 2012*
Cash on hand	201,136	302,956
Current accounts with central banks, excluding obligatory reserves	24,968	111,998
Current accounts with other credit institutions	253,315	192,176
Time deposits with credit institutions up to 90 days	58,866	143,387
Cash and cash equivalents	**538,285**	**750,517**

As at 30 June 2013 GEL 283,463 (31 December 2012: GEL 285,947) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 1.0% interest per annum on these deposits (31 December 2012: 5.25%).

6. Amounts Due from Credit Institutions

	30 June 2013 (unaudited)	*31 December 2012*
Obligatory reserves with central banks	295,010	323,099
Time deposits with maturity of more than 90 days	25,227	67,284
Inter-bank loans and receivables	6,300	6,176
Amounts due from credit institutions	**326,537**	**396,559**

Obligatory reserves with central banks represent amounts deposited with the NBG 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 did not earn any interest on foreign currency denominated obligatory reserve with NBG in 2013 (2012: 0.25%).

As at 30 June 2013 inter-bank loans and receivables include GEL 4,341 (31 December 2012: GEL 4,448) placed with non-OECD banks.

7. Investment Securities Available-for-sale

Available-for-sale securities comprise:

	30 June 2013 (unaudited)	*31 December 2012*
Certificates of deposit of central banks	409,695	259,402
Ministry of Finance treasury bonds	194,472	188,967
Ministry of Finance treasury bills	34,777	9,648
Corporate shares	88,209	76,681
Available-for-sale securities	**727,153**	**534,698**

Corporate shares as at 30 June 2013 include 5.5% investments in BGH of GEL 82,916 (31 December 2012: 70,738), the remaining 19.4% investment in PJSC Bank Pershyi (formerly known as JSC BG Bank) of GEL 3,837 (31 December 2012: 3,837) and a real estate company of GEL 1,145 (31 December 2012: GEL 1,145).

(Thousands of Georgian Lari)

8. Loans to Customers

	30 June 2013 (unaudited)	*31 December 2012*
Commercial loans	1,670,624	1,677,624
Consumer loans	616,907	591,968
Micro and SME loans	468,187	400,553
Residential mortgage loans	395,764	398,114
Gold – pawn loans	73,428	75,445
Loans to customers, gross	**3,224,910**	**3,143,704**
Less – Allowance for loan impairment	(116,922)	(110,037)
Loans to customers, net	**3,107,988**	**3,033,667**

Concentration of loans to customers

As at 30 June 2013 concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 520,675 accounting for 16% of the gross loan portfolio of the Group (31 December 2012: GEL 544,466 and 17% respectively). An allowance of GEL 23,094 (31 December 2012: GEL 20,702) was established against these loans.

As at 30 June 2013, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 767,553 accounting for 24% of the gross loan portfolio of the Group (31 December 2012: GEL 791,529 and 25% respectively). An allowance of GEL 10,157 (31 December 2012: GEL 7,118) was established against these loans.

As at 30 June 2013 and 31 December 2012 loans are principally issued within Georgia, and their distribution by industry sector is as follows:

	30 June 2013 (unaudited)	*31 December 2012*
Individuals	1,290,249	1,233,614
Trade and services	1,117,959	1,053,579
Mining and processing	286,604	347,505
Construction and development	238,163	218,103
Transport and communication	91,693	93,028
Agriculture	84,950	94,286
Energy	26,851	28,296
Others	88,441	75,293
Loans to customers, gross	**3,224,910**	**3,143,704**
Less – allowance for loan impairment	(116,922)	(110,037)
Loans to customers, net	**3,107,988**	**3,033,667**

Loans have been extended to the following types of customers:

	30 June 2013 (unaudited)	*31 December 2012*
Private companies	1,847,074	1,796,116
Individuals		1,233,614
State-owned entities	87,587	113,974
Loans to customers, gross	**3,224,910**	**3,143,704**
Less – allowance for loan impairment	(116,922)	(110,037)
Loans to customers, net	**3,107,988**	**3,033,667**

(Thousands of Georgian Lari)

9. Investment Properties

	2013	*2012*
At 1 January	**160,353**	**101,686**
Additions*	15,032	35,007
Disposals	(9,726)	(10,205)
Net gains from revaluation of investment property	4,842	–
Transfers from (to) property and equipment and other assets	(779)	12,151
At 30 June (unaudited)	**169,722**	**138,639**

**additions comprise foreclosed properties, no cash transactions were involved.*

Investment properties are stated at fair value, which has been determined based on the valuation performed by a professional valuation company, an accredited independent appraiser, as at 31 December 2011. The appraiser is an industry specialist in valuing these types of investment properties. Fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The management regularly monitors market prices on investment properties and performs valuation when significant changes to the market prices are evident. In the view of the management, no significant changes in the value of investment properties took place during the six months ended 30 June 2013. However, two investment properties were revalued in 2013 as a result of material circumstances changing specifically in respect of these properties, leading to material changes to the value.

Rental income and direct operating expenses arising from investment properties comprise:

	30 June 2013 (unaudited)	*30 June 2012 (unaudited)*
Rental income	1,330	1,315
Direct operating expenses	(18)	(80)

The entire amount of direct operating expenses participated in the generation of rental income during the respective periods.

10. Amounts Due to Customers

The amounts due to customers include the following:

	30 June 2013 (unaudited)	*31 December 2012*
Current accounts	1,423,876	1,325,544
Time deposits	1,416,815	1,297,367
Promissory notes issued	12,081	70,114
Amounts due to customers	**2,852,772**	**2,693,025**
Held as security against letters of credit and guarantees (Note 13)	**22,315**	**31,439**

As at 30 June 2013 and 31 December 2012, promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. The average remaining maturity of the notes is 14 months (31 December 2012: 3 months).

At 30 June 2013, GEL 497,303 (17%) was due to the 10 largest customers (31 December 2012: GEL 462,815 (17%)).

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

	30 June 2012 (unaudited)	*31 December 2012*
Individuals	1,344,292	1,238,135
Private enterprises	1,340,001	1,300,487
State-owned entities	168,479	154,403
Amounts due to customers	**2,852,772**	**2,693,025**

(Thousands of Georgian Lari)

10. Amounts Due to Customers (continued)

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

	30 June 2013 (unaudited)	*31 December 2012*
Individuals	1,344,292	1,238,135
Trade and services	701,990	712,794
Energy	317,484	241,807
State-owned entities	168,479	154,403
Construction and development	150,878	145,919
Mining and processing	42,562	59,129
Transport and communication	13,034	35,235
Agriculture	3,266	4,502
Other	110,787	101,101
Amounts due to customers	**2,852,772**	**2,693,025**

11. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	30 June 2013 (unaudited)	*31 December 2012*
Borrowings from international credit institutions	542,086	596,700
Eurobonds	424,854	420,849
Time deposits and inter-bank loans	204,165	113,222
Short-term loans from the National Bank of Georgia	89,079	310,178
Correspondent accounts	7,266	7,969
Subtotal	**1,267,450**	**1,448,918**
Non-convertible subordinated debt	208,236	208,244
Amounts due to credit institutions	**1,475,686**	**1,657,162**

During the six months of 2013 the Group paid up to 6.23% on USD borrowings from international credit institutions (2012: up to 6.29%). During the six months of 2013 the Group paid up to 11.33% on USD subordinated debt (2012: up to 11.65%).

Some long-term borrowings from international credit institutions are subject to certain conditions (the "Lender Covenants"). These covenants require the Group to maintain different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 30 June 2013 and 31 December 2012 the Group complied with all the Lender Covenants of the borrowings from international credit institutions.

On 5 July 2012 the Bank completed the issuance of its USD 250 million (GEL 411 million) 7.75% notes due 2017. The Regulation S / Rule 144A 5-year senior unsecured notes carry a 7.75% coupon rate per annum, paid semi-annually, and were issued and sold at closing at a price of 99.491% of principal amount. Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities Ltd. and Merrill Lynch International acted as Joint Lead Managers and Bookrunners for the notes. Dechert LLP and Baker & McKenzie LLP acted as legal advisors to the Joint Lead Managers and the Bank, respectively. The notes are rated BB- (Fitch) / Ba3 (Moody's) / BB- (Standard & Poor's). The notes are listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's Regulated Market.

(Thousands of Georgian Lari)

12. Equity

Share capital

As at 30 June 2013, issued share capital comprised 36,512,553 common shares, of which 36,512,553 were fully paid (31 December 2012: 36,512,553 authorised common shares, of which 36,512,553 were issued and fully paid). Each share has a nominal value of one (1) Georgian Lari (31 December 2012: one (1) Georgian Lari). Shares issued and outstanding as at 30 June 2013 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2011	**32,877,547**	**32,878**
Issue of share capital	3,635,006	3,635
30 June 2012 (unaudited)	**36,512,553**	**36,513**
31 December 2012	**36,512,553**	**36,513**
30 June 2013 (unaudited)	**36,512,553**	**36,513**

On 24 February 2012 EBRD and IFC utilized the convertibility feature and converted US$ 49,903,083 of their respective loans to the Bank into the Bank's shares. Total number of ordinary shares issued under this transaction comprised 3,635,006.

On 28 February 2012 the Group completed the Tender Offer under which 35,909,383 of the Bank's shares then outstanding (or 98.35 per cent) were converted into 35,909,383 shares of Bank of Georgia Holdings PLC ("BGH").

Share capital of the Group was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian.

Treasury shares

Treasury shares of 463,590 as at 30 June 2013 comprise the Group's shares owned by the Bank (31 December 2012: 463,590).

Dividends

On 5 April 2013, the annual general meeting of shareholders' of JSC Bank of Georgia declared 2013 interim dividends comprising Georgian Lari 1.5 per share. Payment of the total GEL 53,583 interim dividends was received by shareholders on 7 May 2013.

On 25 May 2012, the annual general meeting of shareholders' of JSC Bank of Georgia declared 2012 interim dividends comprising Georgian Lari 0.7 per share. Payment of the total GEL 25,267 interim dividends was received by shareholders on 25 June 2012.

(Thousands of Georgian Lari)

12. Equity (continued)

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings 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 investment securities available-for-sale.

Unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries

This reserve records unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries.

Foreign currency translation reserve

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

Movements in other reserves during six months of 2013 and 2012 are presented in the statements of other comprehensive income.

Earnings per share

	For the six months ended	
	30 June 2013 *(unaudited)*	***30 June 2012*** *(unaudited)*
Basic earnings per share		
Profit for the period attributable to ordinary shareholders of the Group	93,701	86,158
Weighted average number of ordinary shares outstanding during the period	36,048,963	34,759,238
Basic earnings per share	2.5992	2.4786
Dilution effect		
Interest expenses on convertible debt instruments, net of tax	–	1,116
Weighted average number of dilutive potential ordinary shares outstanding during the period	–	619,149
Diluted earnings per share		
Profit for the period attributable to ordinary shareholders of the Group	93,701	87,274
Weighted average number of diluted ordinary shares outstanding during the period	36,048,963	35,378,387
Diluted earnings per share	2.5992	2.4668

On 24 February 2012 the Group converted certain part of its loans taken from EBRD and IFC into 3,635,006 ordinary shares of the Group. Their conversion decreased earnings per share. However, it also reduced the Group's interest expense on these debt instruments and increased the total profit attributable to ordinary shareholders of the Group.

(Thousands of Georgian Lari)

13. 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

As at 30 June 2013 and 31 December 2012 the Group's financial commitments and contingencies comprised the following:

	30 June 2013 *(unaudited)*	*31 December 2012*
Credit-related commitments		
Guarantees issued	456,968	502,511
Undrawn loan facilities	141,811	140,003
Letters of credit	43,725	100,023
	642,504	**742,537**
Operating lease commitments		
Not later than 1 year	6,319	5,666
Later than 1 year but not later than 5 years	13,056	11,722
Later than 5 years	1,631	2,172
	21,006	**19,560**
Capital expenditure commitments	**1,325**	**3,069**
Less – Cash held as security against letters of credit and guarantees (Note 10)	(22,315)	(31,439)
Less – Provisions	(483)	(683)
Financial commitments and contingencies, net	**642,037**	**733,044**

As at 30 June 2013 the capital expenditure represented the commitment for purchase of property and capital repairs of GEL 277 and software and other intangible assets of GEL 1,048. As at 31 December 2012 the capital expenditure represented the commitment for purchase of property and capital repairs of GEL 948 and software and other intangible assets of GEL 2,121.

14. Net Fee and Commission Income

	For the six months ended 30 June	
	2013 *(unaudited)*	*2012* *(unaudited)*
Settlements operations	35,333	32,139
Guarantees and letters of credit	12,592	13,172
Cash operations	4,020	4,319
Currency conversion operations	1,212	719
Brokerage service fees	475	404
Advisory	264	–
Other	1,002	724
Fee and commission income	**54,898**	**51,477**
Settlements operations	(8,699)	(6,977)
Guarantees and letters of credit	(1,883)	(1,533)
Cash operations	(681)	(298)
Brokerage service fees	(497)	(206)
Currency conversion operations	(34)	(42)
Other	(749)	(429)
Fee and commission expense	**(12,543)**	**(9,485)**
Net fee and commission income	**42,355**	**41,992**

(Thousands of Georgian Lari)

15. Impairment Charge on Other Assets and Provisions

Out of GEL 13,286 impairment charge on other assets and provisions for the six months ended 30 June 2013, GEL 10,128 constitutes provision for guarantees issued on one large corporate borrower (2012: GEL 659).

16. Financial Instruments

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the Group as at 30 June 2013 (*unaudited*) and 31 December 2012:

	30 June 2013 (unaudited)			*31 December 2012*		
	Loans and receivables	***Available-for sale***	***Fair value through profit or loss***	***Loans and receivables***	***Available-for sale***	***Fair value through profit or loss***
Financial assets						
Loans to customers	3,107,988	–	–	3,033,667	–	–
Finance lease receivables	27,232	–	–	71,686	–	–
Trade and other receivables (in other assets)	113,888	–	–	100,893	–	–
Equity instruments	–	88,209	365	–	76,681	211
Debt instruments	–	638,944	1,671	–	458,017	760
Foreign currency derivative financial instruments	–	–	36,258	–	–	36,518
Commodity options	–	–	–	–	–	266
Total:	**3,249,108**	**727,153**	**38,294**	**3,206,246**	**534,698**	**37,755**
Financial liabilities						
Amounts owed to customers	2,852,772	–	–	2,693,025	–	–
Amounts owed to credit institutions	1,475,686	–	–	1,657,162	–	–
Trade and other payables (in other liabilities)	48,183	–	–	59,980	–	–
Foreign currency derivative financial instruments	–	–	895	–	–	84
Interest rate swaps	–	–	2,915	–	–	4,783
Total:	**4,376,641**	**–**	**3,810**	**4,410,167**	**–**	**4,867**

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.

(Thousands of Georgian Lari)

16. Financial Instruments (continued)

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 2013 (unaudited)*
Financial assets				
Investment securities – available-for-sale	83,026	638,944	5,183	727,153
Other assets – derivative financial assets	–	36,258	–	36,258
Other assets – trading securities owned	2,036	–	–	2,036
	85,062	**675,202**	**5,183**	**765,447**
Financial liabilities				
Other liabilities – derivative financial liabilities	–	3,810	–	3,810

	Level 1	*Level 2*	*Level 3*	*Total 31 December 2012*
Financial assets				
Investment securities – available-for-sale	70,793	458,017	5,888	534,698
Other assets – derivative financial assets	–	36,784	–	36,784
Other assets – trading securities owned	971	–	–	971
	71,764	**494,801**	**5,888**	**572,453**
Financial liabilities				
Other liabilities – derivative financial liabilities	–	4,867	–	4,867

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 tables show a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value:

	At 31 December 2011	*Sale of AFS securities*	*Transfers from level 2*	*At 31 December 2012*	*Sale of AFS securities*	*At 30 June 2013 (unaudited)*
Financial assets						
Equity investment securities available-for-sale	4,034	(1,983)	3,837	5,888	(705)	5,183

No financial instruments were transferred during the six months ended 30 June 2013 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 2013 comprised nil (2012: nil).

(Thousands of Georgian Lari)

16. Financial Instruments (continued)

Financial instruments recorded at fair value (continued)

No financial instruments were transferred during the six months ended 30 June 2012 between level 1 and level 2 of the fair value hierarchy.

Impact on fair value of level 3 financial instruments to 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 2013** (unaudited)*		***31 December 2012***	
Financial assets				
Investment securities – available-for-sale	5,183	+/- 780	5,888	+/- 886

In order to determine reasonably possible alternative assumptions, 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 interim condensed consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 30 June 2013 (unaudited)	*Fair value 30 June 2013 (unaudited)*	*Unrecognised gain (loss) 30 June 2013 (unaudited)*	*Carrying value 31 December 2012*	*Fair value 31 December 2012*	*Unrecognised loss 31 December 2012*
Financial assets						
Cash and cash equivalents	538,285	538,285	–	750,517	750,517	–
Amounts due from credit institutions	326,537	326,537	–	396,559	396,559	–
Loans to customers	3,107,988	3,194,484	86,496	3,033,667	3,008,665	(25,002)
Finance lease receivables	27,232	27,232	–	71,686	71,686	–
Financial liabilities						
Amounts due to customers	2,852,772	2,895,779	(43,007)	2,693,025	2,707,231	(14,206)
Amounts due to credit institutions	1,475,686	1,475,686	–	1,657,162	1,657,162	–
Total unrecognised change in unrealised fair value			**43,489**			**(39,208)**

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 interim condensed consolidated financial statements.

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 three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a 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 earning loans and interest bearing deposits is based on discounted cash flows using prevailing market interest rates for instruments with similar credit risk and maturity.

(Thousands of Georgian Lari)

17. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to their contractual repayment dates.

	30 June 2013 (unaudited)							
	On Demand	*≤ 3 Months*	*≤ 6 Months*	*≤ 1 Year*	*≤ 3 Years*	*≤ 5 Years*	*> 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	470,537	67,748	–	–	–	–	–	538,285
Amounts due from credit institutions	290,100	14,640	6,634	4,598	6,362	4,203	–	326,537
Investment securities available–for–sale	88,119	267,673	172,352	63,602	43,829	80,418	11,160	727,153
Loans to customers	–	615,206	346,479	622,499	906,128	419,459	198,217	3,107,988
Finance lease receivables	–	4,788	4,257	6,501	10,852	834	–	27,232
Total	**848,756**	**970,055**	**529,722**	**697,200**	**967,171**	**504,914**	**209,377**	**4,727,195**
Financial liabilities								
Amounts due to customers	377,447	375,756	238,768	1,607,702	190,627	52,438	10,034	2,852,772
Amounts due to credit institutions	7,266	344,593	56,721	122,492	294,051	546,060	104,503	1,475,686
Total	**384,713**	**720,349**	**295,489**	**1,730,194**	**484,678**	**598,498**	**114,537**	**4,328,458**
Net	**464,043**	**249,706**	**234,233**	**(1,032,994)**	**482,493**	**(93,584)**	**94,840**	**398,737**

	31 December 2012							
	On Demand	*≤ 3 Months*	*≤ 6 Months*	*≤ 1 Year*	*≤ 3 Years*	*≤ 5 Years*	*> 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	586,852	163,665	–	–	–	–	–	750,517
Amounts due from credit institutions	322,871	48,143	5,790	4,557	9,136	4,448	1,614	396,559
Investment securities available–for–sale	75,938	168,670	114,920	41,159	76,185	51,777	6,049	534,698
Loans to customers	–	605,509	312,302	626,152	935,203	361,248	193,253	3,033,667
Finance lease receivables	–	9,058	5,716	10,353	25,886	13,049	7,624	71,686
Total	**985,661**	**995,045**	**438,728**	**682,221**	**1,046,410**	**430,522**	**208,540**	**4,787,127**
Financial liabilities								
Amounts due to customers	355,835	453,796	214,743	1,337,512	283,000	39,694	8,445	2,693,025
Amounts due to credit institutions	40,321	436,155	49,362	164,137	341,179	524,309	101,699	1,657,162
Total	**396,156**	**889,951**	**264,105**	**1,501,649**	**624,179**	**564,003**	**110,144**	**4,350,187**
Net	**589,505**	**105,094**	**174,623**	**(819,428)**	**422,231**	**(133,481)**	**98,396**	**436,940**

The Group's capability to discharge its liabilities relies on its ability to realise 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, maturity analysis gap does not reflect the historical stability of current accounts, while many time deposits are usually prolonged. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in on demand category in the tables above.

(Thousands of Georgian Lari)

17. 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 at 30 June 2013 amounts owed to customers amounted to GEL 2,852,772 (31 December 2012: GEL 2,693,025) and represented 62% (31 December 2012: 59%) 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 at 30 June 2013 amounts owed to credit institutions amounted to GEL 1,475,686 (31 December 2012: GEL 1,657,162) and represented 32% (31 December 2012: 36%) of total liabilities.

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

18. 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 at the period end and related expenses and income for the period are as follows:

	2013 *(unaudited)*			**2012** *(unaudited)*		
	Shareholders	***Associates***	***Key management personnel****	***Shareholders***	***Associates***	***Key management personnel****
Loans outstanding at 1 January, gross	**13,033**	–	**5,136**	**–**	**304**	**6,558**
Loans issued during the period	–	–	1,114	1,284	514	3,721
Loan repayments during the period	–	–	(1,416)	–	(582)	(4,883)
Other movements	(730)	–	(4,269)	–	(7)	12
Loans outstanding at 30 June, gross	**12,303**	–	**565**	**1,284**	**229**	**5,408**
Less: allowance for impairment at 30 June	–	–	(6)	–	(3)	(86)
Loans outstanding at 30 June, net	**12,303**	–	**559**	**1,284**	**226**	**5,322**
Interest income on loans	–	–	78	–	24	355
Loan impairment charge	–	–	(46)	–	2	(5)
Deposits at 1 January	**11,636**	**17**	**9,681**	**36,730**	**171**	**5,903**
Deposits received during the period	2,330	54	8,448	1,198	9,929	14,899
Deposits repaid during the period	(3,609)	(54)	(6,920)	(7,845)	(9,684)	(11,818)
Other movements	(148)	(17)	(4,463)	(1,644)	29	888
Deposits at 30 June	**10,209**	–	**6,746**	**28,439**	**445**	**9,872**
Interest expense on deposits	325	–	210	1,552	17	287
Other income	–	–	53	363	–	70

***** Key management personnel include members of Bank's Supervisory Board, Chief Executive Officer and Deputies and their close family members. Deposits of close family members as at 30 June 2013 comprised GEL 1,850, interest expense on these deposits during six months ended 30 June 2013 was GEL 80.***

(Thousands of Georgian Lari)

18. Related Party Disclosures (continued)

Compensation of key management personnel was comprised of the following:

	For the six months ended 30 June	
	2013 *(unaudited)*	**2012** *(unaudited)*
Salaries and other benefits	1,254	1,577
Share-based payments compensation	6,858	7,787
Social security costs	13	13
Total key management compensation	**8,125**	**9,377**

The number of key management personnel at 30 June 2013 was 14 (31 December 2012: 15).

19. 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 the six months ended 30 June 2013, 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 total 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 at 30 June 2013 and 31 December 2012 the Bank's capital adequacy ratio on this basis was as follows:

	30 June 2013 *(unaudited)*	***31 December 2012***
Core capital	820,583	739,880
Supplementary capital	313,679	389,685
Less: Deductions from capital	(265,830)	(262,616)
Total regulatory capital	**868,432**	**866,949**
Risk-weighted assets	**5,312,961**	**5,352,187**
Total capital adequacy ratio	**16.3%**	**16.2%**

Regulatory capital consists of Core capital, which comprises share, additional paid-up capital, retained earnings including current period 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 and revaluation reserves.

(Thousands of Georgian Lari)

19. Capital Adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on 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 at 30 June 2013 and 31 December 2012, follows:

	30 June 2013 *(unaudited)*	*31 December 2012*
Tier 1 capital	1,086,204	1,060,678
Tier 2 capital	315,670	297,236
Less: Deductions from capital	(46,121)	(46,121)
Total capital	**1,355,753**	**1,311,793**
Risk-weighted assets	**4,803,061**	**4,785,870**
Total capital adequacy ratio	28.2%	27.4%
Tier 1 capital adequacy ratio	22.6%	22.2%
Minimum total capital adequacy ratio	**8.0%**	**8.0%**

JSC Bank of Georgia and Subsidiaries
Consolidated Financial Statements

31 December 2012
Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Independent auditors' report

To the Shareholders and Supervisory Board of JSC Bank of Georgia -

We have audited the accompanying consolidated financial statements of JSC Bank of Georgia and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG LLC

4 April 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

(Thousands of Georgian Lari)

	Notes	*2012*	*2011*	*2010*
Assets				
Cash and cash equivalents	7	750,517	628,731	611,584
Amounts due from credit institutions	8	396,559	289,530	116,469
Investment securities:				
– available-for-sale	9	534,698	419,576	294,940
– held-to-maturity		–	–	21
Loans to customers	10	3,033,667	2,553,442	2,351,697
Finance lease receivables	11	71,686	62,919	14,419
Investments in associates		2,441	3,014	5,632
Investment properties	12	160,353	101,686	113,496
Property and equipment	13	430,877	348,110	285,852
Intangible assets		23,078	21,222	22,390
Goodwill	14	45,657	46,195	69,212
Current income tax assets		944	8,487	2,247
Deferred income tax assets		14,352	14,852	18,178
Prepayments		41,147	29,929	23,365
Other assets	16	221,042	137,568	75,420
Total assets		**5,727,018**	**4,665,261**	**4,004,922**
Liabilities				
Amounts due to customers	17	2,693,025	2,735,222	2,026,308
Amounts due to credit institutions	18	1,657,162	921,172	1,138,927
Current income tax liabilities		13,818	1,174	4,251
Deferred income tax liabilities		48,320	36,242	30,901
Provisions	19	683	386	4,407
Other liabilities	16	184,224	158,462	106,787
Total liabilities		**4,597,232**	**3,852,658**	**3,311,581**
Equity	20			
Share capital		36,513	32,878	31,345
Additional paid-in capital		615,627	473,732	477,285
Treasury shares		(464)	(3,146)	(1,510)
Other reserves		25,821	14,478	26,816
Retained earnings		408,538	254,588	130,314
Total equity attributable to shareholders of the Group		**1,086,035**	**772,530**	**664,250**
Non-controlling interests		43,751	40,073	29,091
Total equity		**1,129,786**	**812,603**	**693,341**
Total liabilities and equity		**5,727,018**	**4,665,261**	**4,004,922**

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

Irakli Gilauri Chief Executive Officer

David Vakhtangishvili Chief Financial Officer

4 April 2013

The accompanying notes on pages 9 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

(Thousands of Georgian Lari)

	Notes	2012	2011	2010
Interest income				
Loans to customers		509,339	438,989	389,402
Investment securities – available-for-sale		33,950	37,701	7,287
Amounts due from credit institutions		15,813	18,103	9,795
Finance lease receivables		8,701	6,565	4,159
Investment securities – held-to-maturity		–	–	12,498
		567,803	**501,358**	**423,141**
Interest expense				
Amounts due to customers		(202,484)	(167,294)	(114,968)
Amounts due to credit institutions		(79,492)	(99,763)	(91,829)
		(281,976)	**(267,057)**	**(206,797)**
Net interest income before net (losses) gains from interest rate swaps		**285,827**	**234,301**	**216,344**
Net (losses) gains from interest rate swaps		(1,710)	4,984	(7,826)
Net interest income		**284,117**	**239,285**	**208,518**
Fee and commission income		109,278	93,541	74,265
Fee and commission expense		(22,210)	(18,204)	(10,845)
Net fee and commission income	21	**87,068**	**75,337**	**63,420**
Net insurance premiums earned		91,176	46,396	44,561
Net insurance claims incurred		(57,038)	(28,658)	(27,898)
Net insurance revenue	22	**34,138**	**17,738**	**16,663**
Healthcare revenue		54,376	5,700	2,208
Cost of healthcare services		(31,030)	(3,242)	(1,632)
Net healthcare revenue	23	**23,346**	**2,458**	**576**
Revenue from sale of goods		41,533	22,470	18,144
Cost of sales		(30,868)	(12,109)	(9,050)
Net revenue from sale of goods		**10,665**	**10,361**	**9,094**
Net gains from trading securities and investment securities available-for-sale		2,308	1,382	2,006
Net gains from revaluation of investment properties	12	–	1,984	350
Net gains from foreign currencies:				
– dealing		33,389	45,694	33,651
– translation differences		16,182	30,747	98
Other operating income		7,623	8,767	10,625
Other operating non-interest income		**59,502**	**88,574**	**46,730**
Revenue		**498,836**	**433,753**	**345,001**
Salaries and other employee benefits	24	(121,299)	(114,622)	(103,885)
General and administrative expenses	24	(65,686)	(61,942)	(60,568)
Depreciation and amortization		(28,606)	(27,254)	(27,963)
Other operating expenses		(2,949)	(6,347)	(5,719)
Operating expenses		**(218,540)**	**(210,165)**	**(198,135)**
Operating income before cost of credit risk		**280,296**	**223,588**	**146,866**

The accompanying notes on pages 9 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year ended 31 December 2012

(Thousands of Georgian Lari)

	Notes	2012	2011	2010
Operating income before cost of credit risk		**280,296**	**223,588**	**146,866**
Impairment charge on loans to customers	10	(39,186)	(23,216)	(49,886)
(Impairment charge) reversal of impairment on finance lease receivables	11	(495)	(317)	5,775
Impairment (charge) reversal on other assets and provisions		(5,036)	1,337	(3,587)
Cost of credit risk		**(44,717)**	**(22,196)**	**(47,698)**
Net operating income		**235,579**	**201,392**	**99,168**
Net non-operating expenses	25	(19,634)	(29,338)	(725)
Profit before income tax expense from continuing operations		**215,945**	**172,054**	**98,443**
Income tax expense	15	(33,200)	(21,125)	(15,776)
Profit for the year from continuing operations		**182,745**	**150,929**	**82,667**
Net loss from discontinued operations		–	(15,219)	–
Profit for the year		**182,745**	**135,710**	**82,667**
Attributable to:				
– shareholders of the Group		178,921	132,531	83,640
– non-controlling interests		3,824	3,179	(973)
		182,745	**135,710**	**82,667**
Earnings per share, total:	20			
– basic earnings per share		5.3986	4.4375	2.7846
– diluted earnings per share		5.3474	4.1957	2.7388
Earnings per share from continuing operations:	20			
– basic earnings per share from continuing operations		5.3986	4.9470	2.7846
– diluted earnings per share from continuing operations		5.3474	4.6499	2.7388

The accompanying notes on pages 9 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

(Thousands of Georgian Lari)

	Notes	2012	2011	2010
Profit for the year from continuing operations		**182,745**	**150,929**	**82,667**
Net loss from discontinued operations		–	(15,219)	–
Profit for the year		**182,745**	**135,710**	**82,667**
Other comprehensive income (loss) from continuing operations				
– Revaluation of property and equipment	13	–	1,285	(2,859)
– Revaluation of available-for-sale securities		16,580	3,511	6,077
– Realised gain on available-for-sale securities reclassified to the consolidated income statement		(2,075)	(1,721)	(789)
– Gain (loss) from currency translation differences		(288)	(52,493)	5,116
Income tax relating to components of other comprehensive income	15	(2,826)	5,581	206
Other comprehensive income (loss) for the year from continuing operations, net of tax		**11,391**	**(43,837)**	**7,751**
Other comprehensive gain from discontinued operations		–	24,254	–
Other comprehensive income (loss) for the year, net of tax		**11,391**	**(19,583)**	**7,751**
Total comprehensive income for the year from continuing operations		194,136	107,092	90,418
Total comprehensive income for the year from discontinued operations		–	9,035	–
Total comprehensive income for the year		**194,136**	**116,127**	**90,418**
Attributable to:				
– shareholders of the Group		190,653	121,045	89,830
– non-controlling interests		3,483	(4,918)	588
		194,136	**116,127**	**90,418**

The accompanying notes on pages 9 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

(Thousands of Georgian Lari)

	Attributable to shareholders of the Group							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2009	**31,306**	**478,779**	**(1,677)**	**24,387**	**46,163**	**578,958**	**19,459**	**598,417**
Total comprehensive income	–	–	–	7,942	81,888	89,830	588	90,418
Depreciation of revaluation reserve, net of tax	–	–	–	(2,263)	2,263	–	–	–
Increase in share capital arising from share-based payments (Note 20)	39	8,497	610	–	–	9,146	–	9,146
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	–	–	–	11,973	11,973
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	(3,250)	–	(3,250)	(6,854)	(10,104)
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	3,925	3,925
Sale of treasury shares	–	7,104	448	–	–	7,552	–	7,552
Purchase of treasury shares	–	(17,095)	(891)	–	–	(17,986)	–	(17,986)
31 December 2010	**31,345**	**477,285**	**(1,510)**	**26,816**	**130,314**	**664,250**	**29,091**	**693,341**
Total comprehensive income	–	–	–	(9,208)	130,253	121,045	(4,918)	116,127
Depreciation of revaluation reserve, net of tax	–	–	–	(3,190)	3,190	–	–	–
Increase in share capital arising from share-based payments (Note 20)	33	2,716	148	–	–	2,897	–	2,897
Increase in share capital from issuance of GDRs (Note 20)	1,500	–	(1,500)	–	–	–	–	–
Dividends to shareholders of the Bank (Note 20)	–	–	–	–	(9,169)	(9,169)	–	(9,169)
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	60	–	60	2,453	2,513
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	13,447	13,447
Sale of treasury shares	–	26,777	1,268	–	–	28,045	–	28,045
Purchase of treasury shares	–	(33,046)	(1,552)	–	–	(34,598)	–	(34,598)
31 December 2011	**32,878**	**473,732**	**(3,146)**	**14,478**	**254,588**	**772,530**	**40,073**	**812,603**
Total comprehensive income	–	–	–	12,058	178,595	190,653	3,483	194,136
Depreciation of revaluation reserve, net of tax	–	–	–	(622)	622	–	–	–
Increase in share capital arising from share-based payments	–	30,213	602	–	–	30,815	–	30,815
Issue of share capital (Note 20)	3,635	70,313	–	–	–	73,948	–	73,948
Conversion of shares following the Tender Offer	–	54,458	2,507	–	–	56,965	–	56,965
Transactions costs recognised directly in equity	–	(3,325)	–	–	–	(3,325)	–	(3,325)
Dividends to shareholders of the Bank (Note 20)	–	–	–	–	(25,267)	(25,267)	–	(25,267)
Dilution of interests in subsidiaries	–	–	–	15	–	15	128	143
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	(86)	–	(86)	749	663
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	(22)	–	(22)	(682)	(704)
Sale of treasury shares	–	89	5	–	–	94	–	94
Purchase of treasury shares	–	(9,853)	(432)	–	–	(10,285)	–	(10,285)
31 December 2012	**36,513**	**615,627**	**(464)**	**25,821**	**408,538**	**1,086,035**	**43,751**	**1,129,786**

The accompanying notes on pages 9 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

(Thousands of Georgian Lari)

	Notes	2012	2011	2010
Cash flows from operating activities				
Interest received		553,090	494,782	412,407
Interest paid		(270,691)	(244,478)	(194,622)
Fees and commissions received		109,278	93,541	74,265
Fees and commissions paid		(22,210)	(18,204)	(10,845)
Insurance premiums received		79,007	46,070	46,159
Insurance claims paid		(55,197)	(26,106)	(32,007)
Healthcare revenue received		54,376	5,700	2,208
Cost of healthcare services paid		(31,030)	(3,242)	(1,632)
Revenue received from sale of goods		41,533	22,470	18,144
Cost of sales of goods		(30,868)	(12,109)	(9,050)
Net realised gains (losses) from trading securities		375	(236)	2,267
Net realised gains from investment securities available-for-sale		2,075	1,721	789
Net realised gains from foreign currencies		33,389	45,694	33,651
Recoveries of loans to customers previously written off	10	29,979	28,849	42,739
Other income received (expenses paid)		5,949	15,266	(1,819)
Salaries and other employee benefits paid		(109,383)	(96,011)	(93,204)
General and administrative and operating expenses paid		(67,970)	(69,269)	(70,906)
Cash flows from operating activities before changes in operating assets and liabilities		**321,702**	**284,438**	**218,544**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		(99,925)	(179,682)	(45,090)
Loans to customers		(575,378)	(239,413)	(813,482)
Finance lease receivables		(9,262)	(49,095)	8,252
Prepayments and other assets		(59,301)	(63,668)	100
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		761,167	(213,068)	190,994
Amounts due to customers		(52,871)	708,242	731,184
Other liabilities		(28,243)	(32,707)	21,981
Net cash flows from operating activities before income tax		**257,889**	**215,047**	**312,483**
Income tax paid		(3,282)	(7,000)	(3,144)
Net cash flows from operating activities		**254,607**	**208,047**	**309,339**
Cash flows (used in) from investing activities				
Acquisition of subsidiaries, net of cash acquired	5	(9,008)	408	(139)
Proceeds from sale of subsidiary		–	8,747	–
Proceeds from sale of investment securities available-for-sale		221,973	20,625	1,518
Purchase of investment securities		(265,320)	(138,529)	(28,769)
Proceeds from sale of investments in associates		170	332	–
Proceeds from sale of investment properties	12	15,622	7,889	5,490
Proceeds from sale of property and equipment and intangible assets		–	–	13,312
Purchase of property and equipment and intangible assets		(60,880)	(76,239)	(41,839)
Net cash flows used in investing activities		**(97,443)**	**(176,767)**	**(50,427)**

The accompanying notes on pages 9 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2012

(Thousands of Georgian Lari)

	Notes	2012	2011	2010
Cash flows (used in) from financing activities				
Dividends paid		(25,267)	(9,169)	–
Purchase of treasury shares		(10,285)	(34,598)	(17,986)
Sale of treasury shares		94	28,044	7,552
Proceeds from sale of non-controlling interest in existing subsidiary		663	2,453	–
Purchase of additional interests by non-controlling shareholders		–	–	11,973
Purchase of additional interests in existing subsidiaries, net of cash acquired		(704)	–	(6,854)
Net cash used in financing activities		**(35,499)**	**(13,270)**	**(5,315)**
Effect of exchange rates changes on cash and cash equivalents		121	(863)	98
Net increase in cash and cash equivalents		**121,786**	**17,147**	**253,695**
Cash and cash equivalents, beginning	7	**628,731**	**611,584**	**357,889**
Cash and cash equivalents, ending	7	**750,517**	**628,731**	**611,584**

The accompanying notes on pages 9 to 71 are an integral part of these 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. 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 accepts deposits from the public and extends credit, transfers payments in Georgia and internationally and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2012 the Bank has 194 operating outlets in all major cities of Georgia (31 December 2011: 158, 31 December 2010: 142). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

The Bank is the parent of a group of companies (the "Group") incorporated in Georgia and Belarus. Primary business activities of the Group include providing banking, leasing, insurance, healthcare, brokerage and wealth management services, to corporate and individual customers. The list of the companies included in the Group is provided in Note 2.

In December 2011, Bank of Georgia Holdings PLC ("BGH"), a public limited liability company newly incorporated in England and Wales, launched the Tender Offer (the "Tender Offer") to exchange its entire ordinary share capital for an equivalent number of the Bank's ordinary shares and thus to acquire the entire issued and to be issued share capital, including those shares represented by Global Depositary Receipts ("GDRs"), of the Bank. Following the successful completion of the Tender Offer on 28 February 2012 and subsequent acquisitions of the Bank's remaining shares held by non-controlling shareholders by the Bank, BGH holds 99.62% of the share capital of the Bank as at 31 December 2012, representing the Bank's ultimate parent company. The shares of BGH ("BGH Shares") were admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 28 February 2012 (the "Admission").

Following the Tender Offer, GDR Programme was cancelled in June 2012.

The treasury shares kept by the Bank for the purposes of its future employee share-based compensation as of the Tender Offer expiration date have been fully converted into the BGH newly issued shares.

As at 31 December 2012, 31 December 2011 and 31 December 2010, the following shareholders owned more than 4% of the total outstanding shares of the Group. Other shareholders individually owned less than 4% of the outstanding shares.

Shareholder	***31 December 2012***	***31 December 2011***	***31 December 2010***
Bank of Georgia Holdings Plc	99.62%	–	–
Bank of New York (Nominees), Limited	–	91.45%	90.50%
East Capital Financial Institutions	–	4.16%	4.36%
Others	0.38%	4.39%	5.14%
Total*	**100.00%**	**100.00%**	**100.00%**

***** *For the purposes of calculating percentage of shareholding, the denominator includes total number of issued shares, which includes shares held in the trust for the share-based compensation purposes of the Bank.***

1. Principal Activities (continued)

As a result of the Tender Offer, the members of the Supervisory Board and Management Board of the Bank, no longer owned shares of the Bank as at 31 December 2012. As at 31 December 2011, the members of the Supervisory Board and Management Board of the Bank owned 474,246 shares and GDRs or 1.44% of the Bank, (2010: 448,232 shares and GDRs or 1.43%). Interests of the members of the Supervisory Board and Management Board were as follows:

Shareholder	***31 December 2011, shares and GDRs held***	***31 December 2010, shares and GDRs held***
Irakli Gilauri	194,379	200,379
Allan Hirst	60,434	56,311
Sulkhan Gvalia	58,638	60,638
Avto Namicheishvili	39,823	34,823
Kaha Kiknavelidze	26,337	22,509
David Morrison	20,357	15,351
Neil Janin	15,729	3,945
Giorgi Chiladze *	14,000	14,333
Mikheil Gomarteli	10,634	10,634
Al Breach	10,279	6,527
Archil Gachechiladze	10,000	3,700
Vasil Revishvili **	5,908	–
Ian Hague	5,112	1,578
Hanna Loikkanen	2,616	–
Irakli Burdiladze	–	17,504
Total	**474,246**	**448,232**

**** Resigned from the Management Board of the Bank on 26 March 2012***

***** In February 2013, the Bank announced that service contract of Vasil Revishvili will not be extended after its expiration on 1 May 2013***

2. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2012 reporting.

The Bank and its Georgian-based subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari, while the Bank's subsidiaries established outside of Georgia are in their respective local currencies. These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets and liabilities held for trading, available-for-sale securities, investment properties and revalued property and equipment. No interest income or expense arose in relation to financial assets or liabilities at fair value through profit or loss.

These consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), except per-share amounts and unless otherwise indicated.

Going concern

The Group's Management has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates

The consolidated financial statements as at 31 December 2012, 31 December 2011 and 31 December 2010 include the following subsidiaries and associates:

Subsidiaries	*Proportion of voting rights and ordinary share capital held* 31 December 2012	31 December 2011	31 December 2010	Country of incorporation	Industry	Date of incorporation	Date of acquisition
PJSC Bank Pershyi (formerly known as JSC BG Bank) (g)	19.4%	19.4%	99.4%	Ukraine	Banking	26/01/1994	1/10/2007
Valimed, Unitarnoe Predpreyatie (originally LLC)	–	(a)	100.0%	Belarus	Investment	14/09/2000	3/06/2008
JSC BG Capital (Georgia) (formerly known as JSC Galt and Taggart Securities)	100.0%	100.0%	100.0%	Georgia	Brokerage and asset management	19/12/1995	28/12/2004
⇒ Benderlock Investments Limited	100.0%	100.0%	100.0%	Cyprus	Investments	12/05/2009	13/10/2009
⇒ BG Tax Advisory, LLC	(b)	100.0%	100.0%	Georgia	Tax consulting	25/09/2007	–
⇒ BG Commodities (Georgia), LLC	–	(c)	100.0%	Georgia	Commodity Trading	16/04/2009	–
⇒ BG Commodities (Ukraine), LLC	(d)	100.0%	100.0%	Ukraine	Commodity Trading	24/11/2009	–
⇒ Galt and Taggart Holdings Limited	100.0%	100.0%	100.0%	Cyprus	Investment	3/07/2006	–
⇒ BG Trading Limited	100.0%	100.0%	100.0%	Cyprus	Investment	26/03/2007	–
⇒ BG Capital (Ukraine), LLC	(d)	100.0%	100.0%	Ukraine	Brokerage	23/10/2006	–
⇒ BG Capital (Belarus), LLC	100.0%	100.0%	100.0%	Belarus	Brokerage	19/02/2008	–
⇒ Brooksby Investments Limited	100.0%	100.0%	100.0%	Cyprus	Investments	4/03/2008	18/06/2008
⇒ JSC Belarusky Narodny Bank	79.99%	79.99%	79.99%	Belarus	Banking	16/04/1992	3/06/2008
⇒ BNB Leasing, LLC	99.9%	99.9%	99.9%	Belarus	Leasing	30/03/2006	3/06/2008
JSC Insurance Company Aldagi BCI	100.0%	100.0%	100.0%	Georgia	Insurance	22/06/2007	–
⇒ Biznes Centri Kazbegze, LLC	100.0%	100.0%	–	Georgia	Various	22/06/2010	1/10/2011
⇒ JSC My Family Clinic	51.0%	51.0%	100.0%	Georgia	Healthcare	3/10/2005	–
⇒ JSC Kutaisi St. Nicholas Surgical and Oncological Hospital (Formerly known as JSC Kutaisi St. Nicholas Surgery Hospital)	71.87%	55.0%	55.0%	Georgia	Medical services	3/11/2000	20/05/2008
⇒ Kutaisi Regional Clinical Hospital, LLC	100.0%	100.0%	100.0%	Georgia	Medical services	19/07/2010	1/10/2010
⇒ JSC Zugdidi multi profile Clinical Hospital "Republic"	100.0%	100.0%	–	Georgia	Medical services	11/06/1998	29/11/2011
⇒ JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	66.7	66.7%	–	Georgia	Medical services	05/05/2003	29/11/2011
⇒ JSC Chkhorotskhu Regional Central Hospital	100.0%	100.0%	–	Georgia	Medical services	30/11/1999	29/11/2011
⇒ Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	66.7%	66.7%	–	Georgia	Medical services	15/10/2004	09/12/2011
⇒ E.K. Pipia Central Hospital of Tsalenjikha, LLC	100.0%	100.0%	–	Georgia	Medical services	01/09/1999	09/12/2011
⇒ Martvili Multi profile Hospital, LLC	100.0%	100.0%	–	Georgia	Medical services	17/03/2000	09/12/2011
⇒ Abasha Outpatient-Polyclinic Union, LLC	100.0%	100.0%	–	Georgia	Medical services	16/03/2000	09/12/2011
⇒ Tskaltubo Regional Hospital, LLC	66.7%	66.7%	–	Georgia	Medical services	29/09/1999	09/12/2011
⇒ Khobi Central Regional Hospital, LLC	100.0%	100.0%	–	Georgia	Medical services	13/07/2000	09/12/2011
⇒ Imedi L Dent, LLC	100.0%	–	–	Georgia	Medicine	17/01/2005	1/05/2012
⇒ Aliance, LLC	100.0%	–	–	Georgia	Various	1/03/2000	1/05/2012
⇒ Green Way, LLC	100.0%	–	–	Georgia	Various	9/08/2008	1/05/2012
⇒ Centromed, LLC	100.0%	–	–	Georgia	Medicine	9/07/2010	1/05/2012
⇒ Unimed Achara, LLC	100.0%	–	–	Georgia	Medicine	29/06/2010	1/05/2012
⇒ Unimedi Samtskhe, LLC	100.0%	–	–	Georgia	Medicine	29/06/2010	1/05/2012
⇒ Unimedi Kakheti, LLC	100.0%	–	–	Georgia	Medicine	29/06/2010	1/05/2012
Georgian Leasing Company, LLC	100.0%	100.0%	100.0%	Georgia	Leasing	29/10/2001	31/12/2004
JSC GC Holdings (formerly LLC)	100.0%	100.0%	100.0%	Georgia	Investment	29/10/2007	–
⇒ JSC Georgian Card	56.2%	71.78%	71.78%	Georgia	Card processing	17/01/1997	20/10/2004
⇒ Direct Debit Georgia, LLC	100.0%	100.0%	100.0%	Georgia	Electronic payment services	7/03/2006	–
⇒ MetroNet, LLC	100.0%	100.0%	100.0%	Georgia	Communication services	23/04/2007	–
JSC Liberty Consumer	67.49%	67.08%	65.3%	Georgia	Investment	24/05/2006	–
⇒ JSC Teliani Valley	51.23%	51.14%	52.33%	Georgia	Winery	30/06/2000	28/02/2007
⇒ Teliani Trading (Georgia), LLC	100.0%	100.0%	100.0%	Georgia	Distribution	10/01/2006	27/03/2007
⇒ Teliani Trading (Ukraine), LLC	100.0%	100.0%	100.0%	Ukraine	Distribution	03/10/2006	31/12/2007
⇒ Le Caucase, LLC	100.0%	100.0%	100.0%	Georgia	Cognac Production	23/09/2006	20/03/2007
⇒ Kupa, LLC	70.0%	70.0%	70.0%	Georgia	Oak Barrel Production	12/10/2006	20/03/2007

(Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates (continued)

Subsidiaries	Proportion of voting rights and ordinary share capital held 31 December 2012	31 December 2011	31 December 2010	Country of incorporation	Industry	Date of incorporation	Date of acquisition
⇒ JSC Intertour	99.94%	97.02%	97.02%	Georgia	Travel agency	29/03/1996	25/04/2006
⇒ Intertour Ukraine, LLC	–	(a)	100.0%	Ukraine	Travel agency	19/02/2010	–
⇒ Holiday Travel, LLC	(e)	100.0%	100.0%	Georgia	Travel agency	11/02/2005	4/09/2006
⇒ JSC Prime Fitness	100.0%	100.0%	100.0%	Georgia	Fitness centre	3/07/2006	–
⇒ Planeta Forte, LLC	(f)	51.0%	51.0%	Georgia	Newspaper Retail	31/10/1995	1/01/2009
JSC SB Real Estate	100.0%	100.0%	100.0%	Georgia	Real estate	27/09/2006	–
⇒ Caucasus Autohause, LLC	100.0%	100.0%	–	Georgia	Real estate	29/03/2011	–
⇒ Tamarashvili 13, LLC	100.0%	100.0%	–	Georgia	Real estate	03/11/2011	–
JSC Galt and Taggart Holdings (Georgia)	100.0%	100.0%	100.0%	Georgia	Investment	4/11/2008	–
⇒ Metro Service +, LLC	100.0%	100.0%	100.0%	Georgia	Business servicing	10/05/2006	–
⇒ Georgia Financial Investments, LLC	100.0%	100.0%	100.0%	Israel	Information Sharing and Market Research	9/02/2009	–
⇒ Bank of Georgia Representative Office UK Limited	100.0%	100.0%	100.0%	United Kingdom	Information Sharing and Market Research	17/08/2010	–
⇒ Professional Basketball Club Dinamo Tbilisi, LLC	100.0%	100.0%	–	Georgia	Investment	01/10/2011	–
⇒ JSC United Securities Registrar of Georgia	100.0%	100.0%	100.0%	Georgia	Registrar	29/05/2006	–
Bank of Georgia Representative Office Hungary	100.0%	–	–	Hungary	Representative Office	18/06/2012	–

(a) No longer Group subsidiary due to sale in 2011
(b) Merged to JSC BG Capital (Georgia) in 2012
(c) BG Commodities (Georgia), LLC merged to JSC BG Capital in 2011
(d) Had been liquidated in 2012
(e) Merged to JSC Intertour in 2012
(f) No longer Group subsidiary due to sale in 2012
(g) No longer Group subsidiary due to disposal of controlling stake in 2011

Associates	Proportion of voting rights and ordinary share capital held 31 December 2012	31 December 2011	31 December 2010	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC N Tour	30.0%	30.0%	30.0%	Georgia	Travel services	1/11/2001	29/05/2008
JSC Hotels and Restaurants Management Group – m/Group	10.0%	25.0%	25.0%	Georgia	Food retail	30/05/2005	29/05/2008
JSC iCall	27.0%	27.0%	27.0%	Georgia	Call center	22/03/2005	22/11/2006
JSC Caucasus Automotive Retail	–	30.0%	36.1%	Georgia	Car retail	18/04/2008	2/05/2008
Style +, LLC	32.5%	32.5%	32.5%	Georgia	Advertising	1/08/2005	7/08/2008

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

The Group has adopted the following amended IFRS during the year:

Amendments to IFRS 7 "Financial Instruments: Disclosures"
The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the users of the Group's financial statements to evaluate the risk exposures relating to those assets. The amendment has no impact on the Group's disclosures, financial position or performance.

Other amendments resulting from Improvements to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter

3. Summary of Significant Accounting Policies (continued)

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operating and financial activities, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

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

3. Summary of Significant Accounting Policies (continued)

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Determination of fair value

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for long positions and ask price for short positions at the close of business on the reporting date, without any deduction for transaction costs.

For all other financial instruments where there is no active market, fair value is determined using valuation techniques. Valuation techniques include using recent arm's length market transactions, which are determined not to be a result of a forced transaction, involuntary liquidation or distress sale, reference to the current market value of similar instrument, discounted cash flow analysis and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from central banks, excluding obligatory reserves with central banks, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

3. Summary of Significant Accounting Policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as gains less losses from interest rate swaps and gains less losses from foreign currencies translation differences, depending on the nature of the instrument.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of each or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers (including promissory notes issued). These are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Subordinated debt

Subordinated debt represents long-term funds attracted by the Bank on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment on debt in case of the Bank liquidation. Subordinated debt is carried at amortised cost.

Leases

i. Finance – Group as lessor

The Group recognises finance lease receivables in the consolidated statement of financial position at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the finance lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

ii. Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other administrative and operating expenses.

iii. Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Write-off of loans to customers

All retail loans, except mortgages, are written off when overdue by more than 365 days. Retail mortgage loans are written off when overdue by more than 150 days. Write off of corporate loans overdue by more than 150 days is subject to management discretion and is evaluated on a case by case basis, taking into account the current and expected positions of the loan/borrower.

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Renegotiated loans

Renegotiated loans comprise carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.
The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognises the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In cases where the loan is not impaired after restructuring, the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. Summary of Significant Accounting Policies (continued)

Derecognition of financial assets and liabilities (continued)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories that the Bank and its Subsidiaries operate.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia, Ukraine, Belarus and Cyprus also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

3. Summary of Significant Accounting Policies (continued)

Investment properties

The Group holds certain properties as investments to earn rental income, generate capital appreciation or both. Investment properties are measured initially at cost, including subsequent costs. Subsequent to initial recognition, Investment properties is stated to fair value. Gains or losses arising from changes in fair values of investment properties are included in the consolidated income statement as “Net gains from revaluation of investment properties”.

Property and equipment

Property and equipment, except for buildings, is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the devalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset, including assets under construction, commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	Up to 100
Furniture and fixtures	10
Computers and office equipment	5
Motor vehicles	5

The asset’s residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Leasehold improvements are amortised over the life of the related leased asset.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

3. Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 "Operating Segments".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Intangible assets

The Group's intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of income.

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

3. Summary of Significant Accounting Policies (continued)

Insurance liabilities

General insurance liabilities

General insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, environmental and pollution exposures – therefore the ultimate cost of which cannot be known with certainty at the reporting date.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated income statement in order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the consolidated income statement by establishing an unexpired risk provision.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Provisions for the risk of incurring losses on off-balance sheet commitments is estimated regularly based on the past history of actual losses incurred on these commitments.

Retirement and other employee benefit obligations

The Group provides management and employees of the Group, with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group. The Group collects contributions from its employees. When an employee reaches the pension age, aggregated contributions, plus any earnings earned on the employee's behalf are paid to the employee according to the schedule agreed with the employee. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions.

Share-based payment transactions

Employees (including senior executives) of the Group receive share-based remuneration, whereby employees render services as consideration for the equity instruments ('equity settled transactions').

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity settled transactions is recognised together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

3. Summary of Significant Accounting Policies (continued)

Share-based payment transactions (continued)

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions (a condition linked to the price of BGH's shares) which are treated as vesting irrespective whether the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank or its subsidiaries purchase the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Income and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission incomes and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

Insurance premium income

For non-life insurance business, premiums written are recognised at policy inception and earned on a pro rata basis over the term of the related policy coverage. Estimates of premiums written as at the reporting date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

Insurance claims

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Healthcare revenue

Healthcare revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured on an accruals basis. When services are provided in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalent transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods of services given up, adjusted by the amount of any cash or cash equivalents transferred.

Revenue from sale of goods

Revenue from sale of goods comprises revenue from sale of a completed property and other finished goods.

Revenue from sale of a completed property is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer. If, however, the legal terms of the contract are such that the construction represents the continuous transfer of work in progress to the purchaser, the percentage of completion method of revenue recognition is applied and revenue is recognised as work progresses.

Revenue from the sale of other finished goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Continuous transfer of work in progress is applied when: (a) the buyer controls the work in progress, typically when the land on which the development is taking place is owned by the final customer and (b) all significant risks and rewards of ownership of the work in progress in its present state are transferred to the buyer as construction progresses, typically when buyer cannot put the incomplete property back to the Group. In such situations, the percentage of work completed is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

Reclassifications

Due to the increased material size of healthcare business and other revenues from sale of goods, separate captions have been added to the income statement with a summary of these revenues and respective direct costs. The following reclassifications have been made to the year ended 31 December 2011 and 31 December 2010 consolidated income statements to conform with the year ended 31 December 2012 presentational requirements:

Year Ended	Caption Consolidated Income Statement:	*As previously reported*	*Reclassification*	*As reclassified*
31 December 2011	Healthcare revenue	–	5,700	5,700
31 December 2011	Revenue from sale of goods	–	22,470	22,470
31 December 2011	Other operating income	29,052	(20,285)	8,767
31 December 2011	Cost of healthcare services	–	(3,242)	(3,242)
31 December 2011	Cost of sales	–	(12,109)	(12,109)
31 December 2011	Salaries and other employee benefits	(119,111)	4,489	(114,622)
31 December 2011	Other operating expenses	(9,324)	2,977	(6,347)
31 December 2010	Healthcare revenue	–	2,208	2,208
31 December 2010	Revenue from sale of goods	–	18,144	18,144
31 December 2010	Other operating income	21,927	(11,302)	10,625
31 December 2010	Cost of healthcare services	–	(1,632)	(1,632)
31 December 2010	Cost of sales	–	(9,050)	(9,050)
31 December 2010	Salaries and other employee benefits	(104,551)	666	(103,885)
31 December 2010	General and administrative expenses	(61,000)	432	(60,568)
31 December 2010	Other operating expenses	(6,253)	534	(5,719)

As a result of reclassifications made in the consolidated income statement for the year ended 31 December 2011 and 31 December 2010, the following reclassifications have been made to the year ended 31 December 2011 and 31 December 2010 consolidated statements of cash flows as well, in order to conform with the year ended 31 December 2012 presentational requirements:

Year Ended	Consolidated Statement of Cash Flows:	*As previously reported*	*Reclassification*	*As reclassified*
31 December 2011	Healthcare revenue received	–	5,700	5,700
31 December 2011	Revenue received from sale of goods	–	22,470	22,470
31 December 2011	Other operating income received (expenses paid)	35,551	(20,285)	15,266
31 December 2011	Cost of healthcare services paid	–	(3,242)	(3,242)
31 December 2011	Cost of sales of goods	–	(12,109)	(12,109)
31 December 2011	Salaries and other employee benefits paid	(100,500)	4,489	(96,011)
31 December 2011	General and administrative and operating expenses paid	(72,246)	2,977	(69,269)
31 December 2010	Healthcare revenue received	–	2,208	2,208
31 December 2010	Revenue received from sale of goods	–	18,144	18,144
31 December 2010	Other operating income received (expenses paid)	9,483	(11,302)	(1,819)
31 December 2010	Cost of healthcare services paid	–	(1,632)	(1,632)
31 December 2010	Cost of sales of goods	–	(9,050)	(9,050)
31 December 2010	Salaries and other employee benefits paid	(93,870)	666	(93,204)
31 December 2010	General and administrative and operating expenses paid	(71,872)	966	(70,906)

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Functional, reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency. The Bank's functional currency is US Dollar. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2012, 31 December 2011 and 31 December 2010 were:

	Lari to GBP	*Lari to USD*	*Lari to EUR*	*Lari to UAH (10)*	*Lari to BYR (10,000)*
31 December 2012	2.6653	1.6567	2.1825	2.0727	1.9811
31 December 2011	2.5776	1.6703	2.1614	2.0905	2.0004
31 December 2010	2.7393	1.7728	2.3500	2.2272	5.9093

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Hyperinflation accounting

With effect from 1 January 2011, the Belarusian economy has been considered to be hyperinflationary in accordance with the criteria in IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

In applying IAS 29, the Bank's subsidiaries in Belarus, JSC Belarusky Narodny Bank ("BNB") and BNB Leasing, LLC, have used conversion factors derived from the Belarusian consumer price index ("CPI"), published by the State Committee on Statistics of the Republic of Belarus. The CPIs for the six year period and respective conversion factors after Belarus previously ceased to be considered hyperinflationary on 1 January 2006 are as follows:

Year	Index, %	Conversion Factors
2006	106.6	390.2
2007	112.1	348.5
2008	113.3	307.2
2009	110.1	279.6
2010	109.9	254.1
2011	208.7	121.8
2012	121.8	100.0

All income and expenses, profits and losses are recalculated by applying the relevant adjustment factors. Monetary assets and liabilities are not recalculated because they are already expressed in terms of the monetary unit current as at the reporting date. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current as at the reporting date) are recalculated by applying the relevant index. The effect of inflation on BNB's net non-monetary position is included in the income statement in net non-operating expenses.

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

IFRS 9 "Financial Instruments"

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, at the time the other phases are issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — *Special Purpose Entities*. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group is currently evaluating the possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group expects that adoption of IFRS 11 will have no effect on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. In particular, the Group will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or which it has sponsored. However, the standard will have no impact on Group's financial position or performance.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. The Group is currently evaluating the possible effect of the adoption of IFRS 13 on its financial position and performance.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment is effective for annual periods beginning on or after 1 January 2013.

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective (continued)

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment is effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. The Group expects that these amendments will have no impact on the Group's financial position.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment is effective for annual periods beginning on or after 1 July 2012.

Amendments to IFRS 7 Disclosures – Offsetting Financial assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with *IAS 32 Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and are effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact on the Group by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Group's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects now, but the Group will be evaluating the impact between now and the effective date.

These amendments will become effective for annual periods beginning on or after 1 January 2014.

Amendment to IFRS 1 – Government loans

These amendments require first-time adopters to apply the requirements of *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. The amendment will have no impact on the Group.

3. Summary of Significant Accounting Policies (continued)

Improvements to IFRS

The amendments are effective for annual periods beginning on or after 1 January 2013. They will not have an impact on the Group.

- *IFRS 1 First-time Adoption of International Financial Reporting Standards:* This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.
- *IAS 1 Presentation of Financial Statements*: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.
- *IAS 16 Property Plant and Equipment*: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property; plant and equipment are not inventory.
- *IAS 32 Financial Instruments, Presentation*: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- *IAS 34 Interim Financial Reporting*: The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

4. Significant Accounting Judgements and Estimates

In the process of applying the Group's accounting policies, the supervisory board members and management use their judgment and make estimates in determining the amounts recognised in the consolidated financial statements. The most significant judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Measurement of fair value of investment properties and property and equipment

The fair value of investment properties and buildings included in property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalization method (also known as discounted future cash flow method) and the sales comparison method.

The estimates described above are subject to change as new transaction data and market evidence become available.

Allowance for impairment of loans and receivables and finance lease receivables

The Group regularly reviews its loans and receivables and finance lease receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the 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 group of loans and receivables. The Group uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

The Group considers the fair value of collateral when estimating the amount of impairment loss for collateralized loans and receivables and finance lease receivables. Management monitors market value of collateral on a regular basis. Management uses its experienced judgment or independent opinion to adjust the fair value to reflect current circumstances. The amount and type of collateral required depends on the assessment of credit risk of the counterparty.

In order to exclude post 2008 Georgia – Russia war and global financial crisis extraordinary trends from the assessment of collective impairment of loans, the Bank amended its approach in 2012. Namely, the historical loss rates that are applied for collective impairment are now calculated based on three-year history of net losses (including reversals) as opposed to five-seven-year history of net losses under previous approach. The impact of this change on profit from continuing operations before income tax expense for the year ended 31 December 2012 is 20.1 million GEL.

(Thousands of Georgian Lari)

5. Business Combinations

Acquisitions in 2012

JSC Insurance Company Imedi L International

On 24 April 2012 JSC Insurance Company Aldagi BCI ("Acquirer"), a wholly owned subsidiary of the Group, fully acquired Meta LLC, which owned 51% of JSC Insurance Company Imedi L International ("Acquiree"), an insurance company operating in Georgia, thus acquiring control over the Acquiree. On 30 April 2012 the Acquirer purchased 34% stake in the Acquiree from the European Bank for Reconstruction and Development (EBRD). On 21 May 2012 the Acquirer purchased 89.58% shares in Imedi L Holding LLC, which owned 9.6% of the Acquiree's shares, thus bringing the total ownership stake in the Acquiree to 94.6%. On 24 July 2012 the remaining stake of the Acquiree were purchased from LTD Saimedo. On 16 November 2012 the Acquiree was merged with the Acquirer. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from the Acquiree as at the date of acquisition were:

	Fair value recognised on acquisition
Cash and cash equivalents	617
Amounts due from credit institutions	7,042
Insurance premiums receivable[1]	19,438
Reinsurance assets	795
Property and equipment	55,460
Intangible assets	113
Deferred acquisition costs	1,241
Other assets	7,810
	92,516
Amounts owed to credit institutions	6,355
Insurance contracts liabilities	31,542
Other insurance liabilities	1,861
Pension benefit obligations	46
Current income tax liabilities	46
Accruals and deferred income	2,181
Other liabilities	14,491
	56,522
Total identifiable net assets	**35,994**
Goodwill arising on business combination (note 14)	482
Consideration given[2]	**36,476**

The net cash outflow on acquisition was as follows:

	2012
Cash paid	9,625
Cash acquired with the subsidiary	(617)
Net cash outflow	**9,008**

The Group decided to increase their presence and investment in Georgia's underpenetrated and growing insurance and healthcare sector, by acquiring the country's third largest insurance company, thus securing a leading position in the sector. Management considers that the deal will have positive impact on the value of the Group.

Since the acquisition date, the Group recorded GEL 306,173 and GEL 108,865 of revenue and profit, respectively. In the same period, GEL 9,263 and GEL 2,806 of revenue and profit, respectively comes from the Acquiree. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 335,187 and GEL 105,803 of revenue and profit respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill was the positive synergy brought into the Group's operations.

[1] The fair value of the insurance premium receivables amounted to GEL 19,438. The gross amount of receivables is GEL 24,825. GEL 5,387 of the premium receivables has been impaired.

[2] Consideration comprised of GEL 26,879 pre-existing loan to JSC Insurance Company Imedi L International less GEL 28 pre-existing deposit and cash payments of GEL 9,625.

6. Segment Information

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

Retail Banking (excluding Retail Banking of BG Bank and BNB) - Principally providing consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services, and handling customers' deposits for both, individuals as well as legal entities, encompassing mass affluent segment, retail mass markets, small & medium enterprises and micro businesses.

Corporate Banking (excluding Corporate Banking of BG Bank and BNB) - Principally providing loans and other credit facilities to large VIP as well as other legal entities, larger than SME and Micro, finance lease facilities provided by Georgian Leasing Company LLC, as well as providing funds transfers and settlement services, trade finance services and documentary operations support, handling saving and term deposits for corporate and institutional customers.

Wealth Management - Principally providing private banking services to resident as well as non-resident wealthy individuals as well as their direct family members by ensuring individually distinguished approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or holding their savings and term deposits; Wealth Management involves providing wealth and asset management services to same individuals through different investment opportunities and specifically designed investment products.

Corporate Centre - Principally providing back office services to all operating segments of the Group as well as holding all principal investments in subsidiaries.

Insurance - Principally providing wide-scale non-life insurance services to corporate clients and insured individuals.

Healthcare - Principally providing wide-scale healthcare services to clients and insured individuals.

Affordable Housing - Comprising JSC SB Real Estate, principally developing and selling affordable residential apartments and also, holding investment properties repossessed by the Bank from defaulted borrowers and managing those properties

BG Capital - Principally providing brokerage, custody and corporate finance services, mostly to wealthy or mass affluent individuals as well as to corporate customers.

BNB & BGB - Comprising JSC Belarusky Narodny Bank and JSC BG Bank (disposed of in February 2011), nowadays principally providing retail and corporate banking services in Belarus.

Liberty Consumer - Principally holding private equity investments in several non-core business enterprises, such as winery, fitness centre, travel agencies, outdoor or indoor advertising company, regional car dealership, hotels and restaurants management chain and other smaller investments, all designated for disposal.

Other - Comprising JSC Galt & Taggart Holding Georgia, a shell company, principally holding investments in subsidiaries of the Bank on behalf of the Bank.

For purposes of further consolidation of these operating segments and for more comprehensive presentation in these consolidated financial statements, Management has further grouped them into large segments, classified as: Strategic, Synergistic and Non-Core.

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 in the same manner as profit or loss in the consolidated financial statements.

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

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2012:

	Strategic				*Synergistic*				*Non-Core*			*Inter – segment transactions and balances*	*Total*
	Corporate banking	*Retail banking*	*Wealth management*	*Corporate center*	*Insurance*	*Healthcare*	*Affordable Housing*	*BG Capital*	*BNB*	*Liberty Consumer*	*Other*		
Net interest income (expense)	92,276	174,360	12,644	–	1,825	(6,481)	147	21	12,074	(578)	(2,171)	–	284,117
Net fees and commission income (expense)	28,701	53,563	523	–	(107)	–	196	456	3,809	(61)	(12)	–	87,068
Net insurance revenue	–	–	–	–	29,661	–	–	–	–	–	–	4,477	34,138
Net healthcare revenue	–	–	–	–	–	29,768	–	–	–	–	–	(6,422)	23,346
Net revenue from sale of goods	–	–	–	–	–	–	2,936	–	–	7,729	–	–	10,665
Net gains (losses) from foreign currencies	29,819	14,985	682	–	238	(1,090)	(145)	(64)	5,306	(154)	(6)	–	49,571
Other revenues	3,996	3,365	73	–	1,000	257	1,442	240	68	217	1,630	(2,357)	9,931
Revenue	**154,792**	**246,273**	**13,922**	**–**	**32,617**	**22,454**	**4,576**	**653**	**21,257**	**7,153**	**(559)**	**(4,302)**	**498,836**
Operating expenses	(51,323)	(109,041)	(4,665)	–	(17,437)	(17,917)	(2,381)	(1,155)	(10,327)	(5,934)	(2,662)	4,302	(218,540)
Operating income before cost of credit risk	**103,469**	**137,232**	**9,257**	**–**	**15,180**	**4,537**	**2,195**	**(502)**	**10,930**	**1,219**	**(3,221)**	**–**	**280,296**
Cost of credit risk	(29,490)	(12,482)	727	–	(1,502)	(802)	(219)	–	(1,306)	(136)	–	493	(44,717)
Net operating income	**73,979**	**124,750**	**9,984**	**–**	**13,678**	**3,735**	**1,976**	**(502)**	**9,624**	**1,083**	**(3,221)**	**493**	**235,579**
Net non-operating (expenses) income	(8,415)	(6,828)	(305)	–	–	440	282	–	(443)	(4,365)	–	–	(19,634)
Profit before income tax (expense) benefit	**65,564**	**117,922**	**9,679**	**–**	**13,678**	**4,175**	**2,258**	**(502)**	**9,181**	**(3,282)**	**(3,221)**	**493**	**215,945**
Income tax (expense) benefit	(9,936)	(16,392)	(1,339)	–	(2,068)	(242)	(307)	(95)	(2,367)	(889)	435	–	(33,200)
Profit for the year	**55,628**	**101,530**	**8,340**	**–**	**11,610**	**3,933**	**1,951**	**(597)**	**6,814**	**(4,171)**	**(2,786)**	**493**	**182,745**
Assets and liabilities													
Total assets	2,604,889	2,513,397	43,169	6,368	186,717	170,415	105,899	22,394	185,859	37,924	34,986	(184,999)	5,727,018
Total liabilities	1,975,189	1,709,727	605,183	1,354	151,287	113,203	42,838	16,431	139,356	12,114	17,043	(186,493)	4,597,232
Other segment information													
Property and equipment	5,886	20,593	438	–	3,581	25,769	203	197	340	1,616	1,563	–	60,186
Intangible assets	906	3,678	50	–	441	150	20	3	186	266	1	–	5,701
Capital expenditure	**6,792**	**24,271**	**488**	**–**	**4,022**	**25,919**	**223**	**200**	**526**	**1,882**	**1,564**	**–**	**65,887**
Depreciation	(4,160)	(14,412)	(316)	–	(699)	(3,342)	(121)	(15)	(910)	(940)	(112)	–	(25,027)
Amortization	(667)	(2,643)	(37)	–	(101)	–	–	(6)	(116)	(6)	(3)	–	(3,579)
Impairment	–	(15)	–	–	–	–	–	–	–	(939)	–	–	(954)
Investments in associates	–	–	–	–	–	–	–	–	–	2,441	–	–	2,441
Share of loss of associates	–	–	–	–	–	–	–	–	–	(149)	–	–	(149)

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2011:

	Strategic				*Synergistic*				*Non-Core*			*Inter – segment transactions and balances*	*Total*
	Corporate banking	*Retail banking*	*Wealth management*	*Corporate center*	*Insurance*	*Healthcare*	*Affordable Housing*	*BG Capital*	*BNB**	*Liberty Consumer*	*Other*		
Net interest income (expense)	77,900	144,396	6,000	–	(249)	(143)	(805)	205	13,183	(1,202)	–	–	239,285
Net fees and commission income	20,559	49,512	604	–	–	–	–	2,634	2,028	–	–	–	75,337
Net insurance revenue	–	–	–	–	17,725	–	–	–	–	–	–	13	17,738
Net healthcare revenue	–	–	–	–	–	4,358	–	–	–	–	–	(1,900)	2,458
Net revenue from sale of goods	–	–	–	–	–	–	–	–	–	10,361	–	–	10,361
Net gains (losses) from foreign currencies	27,383	12,992	740	–	(779)	–	(51)	685	35,764	(293)	–	–	76,441
Other revenues	5,275	3,996	24	–	1,294	802	3,378	196	(15)	710	85	(3,612)	12,133
Revenue	**131,117**	**210,896**	**7,368**	**–**	**17,991**	**5,017**	**2,522**	**3,720**	**50,960**	**9,576**	**85**	**(5,499)**	**433,753**
Operating expenses	(56,282)	(107,936)	(3,967)	–	(12,382)	(3,582)	(2,029)	(4,792)	(13,321)	(11,110)	(263)	5,499	(210,165)
Operating income before cost of credit risk	**74,835**	**102,960**	**3,401**	**–**	**5,609**	**1,435**	**493**	**(1,072)**	**37,639**	**(1,534)**	**(178)**	**–**	**223,588**
Cost of credit risk	(21,553)	2,575	87	–	(1,885)	–	(32)	–	(1,398)	(335)	–	345	(22,196)
Net operating income	**53,282**	**105,535**	**3,488**	**–**	**3,724**	**1,435**	**461**	**(1,072)**	**36,241**	**(1,869)**	**(178)**	**345**	**201,392**
Net non-operating (expenses) income	(6,318)	(6,224)	(197)	–	702	1,402	8	–	(18,225)	(486)	–	–	(29,338)
Profit before income tax (expense) benefit from continuing operations	**46,964**	**99,311**	**3,291**	**–**	**4,426**	**2,837**	**469**	**(1,072)**	**18,016**	**(2,355)**	**(178)**	**345**	**172,054**
Income tax (expense) benefit	(4,896)	(9,582)	(318)	–	(702)	(43)	178	31	(6,009)	36	180	–	(21,125)
Profit for the period from continuing operations	**42,068**	**89,729**	**2,973**	**–**	**3,724**	**2,794**	**647**	**(1,041)**	**12,007**	**(2,319)**	**2**	**345**	**150,929**
Net loss from discontinued operations	(7,807)	(7,183)	(229)	–	–	–	–	–	–	–	–	–	(15,219)
Profit for the year	**34,261**	**82,546**	**2,744**	**–**	**3,724**	**2,794**	**647**	**(1,041)**	**12,007**	**(2,319)**	**2**	**345**	**135,710**
Assets and liabilities													
Total assets	2,181,069	2,166,428	40,447	6,596	98,832	73,378	74,620	20,319	94,328	45,367	534	(136,657)	4,665,261
Total liabilities	2,014,512	1,278,311	454,178	1,163	76,891	50,862	32,125	13,394	56,947	11,926	7	(137,658)	3,852,658
Other segment information													
Property and equipment	12,992	34,638	663	–	1,814	13,085	11,233	89	1,418	831	–	–	76,763
Intangible assets	1,524	4,283	77	–	267	29	15	12	168	68	–	–	6,443
Capital expenditure	**14,516**	**38,921**	**740**	**–**	**2,081**	**13,114**	**11,248**	**101**	**1,586**	**899**	**–**	**–**	**83,206**
Depreciation	5,342	14,283	255	–	679	208	71	120	1,641	994	–	–	23,593
Amortization	822	2,572	38	–	48	–	–	17	161	3	–	–	3,661
Impairment	–	–	–	23,394	–	–	–	–	–	–	–	–	23,394
Investments in associates	–	–	–	–	–	–	–	–	–	3,014	–	–	3,014
Share of loss of associates	–	–	–	–	–	–	–	–	–	(487)	–	–	(487)

***** *JSC Belarusky Narodny Bank (BNB) and JSC BG BANK (BGB).***

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2010:

	Strategic				*Synergistic*				*Non-Core*			*Inter – segment transactions and balances*	*Total*
	Corporate banking	*Retail banking*	*Wealth management*	*Corporate center*	*Insurance*	*Healthcare*	*Affordable Housing*	*BG Capital*	*BNB**	*Liberty Consumer*	*Other*		
Net interest income (expense)	76,023	112,175	3,054	–	(789)	62	(2,590)	548	21,094	(1,059)	–	–	208,518
Net fees and commission income	16,152	42,475	487	–	86	–	–	1,270	2,950	–	–	–	63,420
Net insurance revenue	–	–	–	–	15,808	–	–	–	–	–	–	855	16,663
Net healthcare revenue	–	–	–	–	–	3,238	–	–	–	–	–	(2,662)	576
Net revenue from sale of goods	–	–	–	–	–	–	–	–	–	9094	–	–	9,094
Net gains (losses) from foreign currencies	21,382	9,233	641	–	267	–	(2,539)	2,057	2,646	(92)	154	–	33,749
Other revenues	2,965	5,343	139	–	376	218	3,173	3,085	495	(456)	–	(2,357)	12,981
Revenue	**116,522**	**169,226**	**4,321**	**–**	**15,748**	**3,518**	**(1,956)**	**6,960**	**27,185**	**7,487**	**154**	**(4,164)**	**345,001**
Operating expenses	(43,011)	(98,404)	(4,876)	–	(11,112)	(1,934)	(1,791)	(5,406)	(26,288)	(9,476)	(1)	4,164	(198,135)
Operating income before cost of credit risk	**73,511**	**70,822**	**(555)**	**–**	**4,636**	**1,584**	**(3,747)**	**1,554**	**897**	**(1,989)**	**153**	–	**146,866**
Cost of credit risk	(11,517)	(29,574)	2,630	–	(540)	–	–	–	(4,502)	(3,423)	–	(772)	(47,698)
Net operating income	**61,994**	**41,248**	**2,075**	–	**4,096**	**1,584**	**(3,747)**	**1,554**	**(3,605)**	**(5,412)**	**153**	**(772)**	**99,168**
Net non-operating (expenses) income	(393)	(570)	(17)	–	–	–	–	–	–	255	–	–	(725)
Profit before income tax (expense) benefit	**61,601**	**40,678**	**2,058**	–	**4,096**	**1,584**	**(3,747)**	**1,554**	**(3,605)**	**(5,157)**	**153**	**(772)**	**98,443**
Income tax (expense) benefit	(9,878)	(5,936)	(338)	–	(630)	(32)	128	78	38	806	(12)	–	(15,776)
Profit for the year	**51,723**	**34,742**	**1,720**	–	**3,466**	**1,552**	**(3,619)**	**1,632**	**(3,567)**	**(4,351)**	**141**	**(772)**	**82,667**
Assets and liabilities													
Total assets	1,718,334	1,743,326	43,083	–	77,357	11,523	33,594	20,843	378,392	47,278	2	(68,810)	4,004,922
Total liabilities	1,577,555	1,184,560	261,638	–	58,893	4,673	3,355	11,975	264,600	13,786	11	(69,465)	3,311,581
Other segment information													
Property and equipment	6,157	19,006	482	–	401	2,889	34	144	6,743	578	–	–	36,434
Intangible assets	1,347	3,540	85	–	35	4	6	3	355	3,473	–	–	8,848
Capital expenditure	**7,504**	**22,546**	**567**	**–**	**436**	**2,893**	**40**	**147**	**7,098**	**4,051**	**–**	**–**	**45,282**
Depreciation	(5,523)	(15,479)	(487)	–	(482)	(152)	(125)	(163)	(1,190)	(909)	–	–	(24,510)
Amortization	(644)	(2,387)	(49)	–	(29)	–	–	(29)	(305)	(10)	–	–	(3,453)
Impairment	(120)	(307)	(8)	–	–	–	–	–	–	–	–	–	(435)
Investments in associates	–	–	–	–	–	–	–	–	–	5,632	–	–	5,632
Share of profit of associates	–	–	–	–	–	–	–	–	–	255	–	–	255

**** JSC Belarusky Narodny Bank (BNB) and JSC BG BANK (BGB).***

(Thousands of Georgian Lari)

7. Cash and Cash Equivalents

	2012	*2011*	*2010*
Cash on hand	302,956	163,001	161,749
Current accounts with central banks, excluding obligatory reserves	111,998	54,830	58,958
Current accounts with other credit institutions	192,176	304,910	161,290
Time deposits with credit institutions with maturity of up to 90 days	143,387	105,990	229,587
Cash and cash equivalents	**750,517**	**628,731**	**611,584**

As at 31 December 2012 GEL 273,638 (2011: GEL 304,231, 2010: GEL 367,956) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 5.25% interest per annum on these deposits (2011: up to 5.1%, 2010: up to 1.74%).

8. Amounts Due from Credit Institutions

	2012	*2011*	*2010*
Obligatory reserves with central banks	323,099	270,335	90,378
Time deposits with maturity of more than 90 days	67,284	14,318	20,809
Inter-bank loan receivables	6,176	4,877	5,282
Amounts due from credit institutions	**396,559**	**289,530**	**116,469**

Obligatory reserves with central banks represent amounts deposited with the NBG and National Bank of the Republic of Belarus (the "NBRB"). Credit institutions are required to maintain an interest-earning cash deposit (obligatory reserve) with the NBG and a non interest-earning cash deposit (obligatory reserve) with the NBRB, 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 0.25% annual interest on obligatory reserves with NBG for the years ended 31 December 2012 and 31 December 2011. The Group earned up to 1% annual interest on obligatory reserve with NBG in 2010.

As at 31 December 2012 inter-bank loan receivables include GEL 4,448 (2011: GEL 4,176, 2010: GEL 4,436) placed with non-OECD banks.

9. Investment Securities Available-for-Sale

	2012	*2011*	*2010*
Certificates of deposit of central banks	259,402	199,142	104,969
Ministry of Finance treasury bonds	188,967	120,255	52,120
Ministry of Finance treasury bills	9,648	88,657	128,539
Corporate shares	76,681	11,501	11,294
Corporate bonds	–	21	–
	534,698	**419,576**	**296,922**
Less – Allowance for impairment	–	–	(1,982)
Investment securities available-for-sale	**534,698**	**419,576**	**294,940**

Corporate shares as at 31 December 2012 are primarily comprised of 7.2% investment in BGH of GEL 70,738, the remaining 19.4% investment in PJSC Bank Pershyi (formerly known as JSC BG Bank) of GEL 3,837 (2011: GEL 3,837, 2010: nil), investments in a chain of pharmacy stores of GEL 694 (2011: GEL 2,776, 2010: GEL 4,282) and a real estate company of GEL 1,145 (2011: GEL 1,145, 2010: GEL 1,145).

(Thousands of Georgian Lari)

10. Loans to Customers

	2012	*2011*	*2010*
Commercial loans	1,677,624	1,363,058	1,424,550
Consumer loans	591,968	516,733	383,615
Micro and SME loans	400,553	318,566	238,462
Residential mortgage loans	398,114	390,997	409,786
Gold – pawn loans	75,445	78,785	66,749
Other	–	–	4,071
Loans to customers, gross	**3,143,704**	**2,668,139**	**2,527,233**
Less – Allowance for loan impairment	(110,037)	(114,697)	(175,536)
Loans to customers, net	**3,033,667**	**2,553,442**	**2,351,697**

Allowance for loan impairment

Movements of the allowance for impairment of loans to customers by class are as follows:

	Commercial loans 2012	*Consumer loans 2012*	*Residential mortgage loans 2012*	*Micro and SME loans 2012*	*Total 2012*
At 1 January	**70,106**	**28,997**	**10,027**	**5,567**	**114,697**
Charge (reversal)	27,420	13,054	(1,142)	(146)	39,186
Recoveries	7,589	11,064	7,814	3,512	29,979
Write-offs	(25,174)	(30,196)	(5,720)	(6,475)	(67,565)
Interest accrued on impaired loans	(1,901)	(2,662)	(1,266)	(581)	(6,410)
Currency translation differences	158	(8)	–	–	150
At 31 December	**78,198**	**20,249**	**9,713**	**1,877**	**110,037**
Individual impairment	66,566	11,230	3,499	1,877	83,172
Collective impairment	11,632	9,019	6,214	–	26,865
	78,198	**20,249**	**9,713**	**1,877**	**110,037**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**152,268**	**23,683**	**10,719**	**5,620**	**192,290**

	Commercial loans 2011	*Consumer loans 2011*	*Residential mortgage loans 2011*	*Micro and SME loans 2011*	*Other 2011*	*Total 2011*
At 1 January	**114,499**	**31,873**	**22,424**	**5,951**	**789**	**175,536**
Charge (reversal)	24,017	(1,086)	1,033	(721)	(27)	23,216
Recoveries	2,900	15,158	7,404	3,387	–	28,849
Write-offs	(23,752)	(15,459)	(7,881)	(2,639)	–	(49,731)
Disposal of subsidiary	(43,593)	–	(11,714)	(65)	(803)	(56,175)
Interest accrued on impaired loans	(3,997)	(1,390)	(1,569)	(349)	–	(7,305)
Currency translation differences	32	(99)	330	3	41	307
At 31 December	**70,106**	**28,997**	**10,027**	**5,567**	**–**	**114,697**
Individual impairment	61,852	7,304	5,173	1,841	–	76,170
Collective impairment	8,254	21,693	4,854	3,726	–	38,527
	70,106	**28,997**	**10,027**	**5,567**	**–**	**114,697**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**206,030**	**15,195**	**21,709**	**5,492**	**–**	**248,426**

(Thousands of Georgian Lari)

10. Loans to Customers (continued)

Allowance for loan impairment (continued)

	Commercial loans 2010	*Consumer loans 2010*	*Residential mortgage loans 2010*	*Micro and SME loans 2010*	*Other 2010*	*Total 2010*
At 1 January	**82,042**	**54,989**	**23,490**	**3,788**	**2,177**	**166,486**
Charge (reversal)	23,932	7,571	18,440	1,474	(1,531)	49,886
Recoveries	21,090	15,208	3,249	3,150	42	42,739
Write-offs	(13,074)	(42,798)	(19,441)	(2,138)	–	(77,451)
Interest accrued on impaired loans	(1,392)	(3,306)	(3,681)	(360)	–	(8,739)
Currency translation differences	1,901	209	367	37	101	2,615
At 31 December	**114,499**	**31,873**	**22,424**	**5,951**	**789**	**175,536**
Individual impairment	68,145	13,148	16,606	2,433	315	100,647
Collective impairment	46,354	18,725	5,818	3,518	474	74,889
	114,499	**31,873**	**22,424**	**5,951**	**789**	**175,536**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**192,778**	**21,996**	**51,585**	**9,051**	**973**	**276,383**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognised as at 31 December 2012 comprised GEL 13,844 (2011: GEL 14,914, 2010: GEL 18,640).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory, trade receivables and third party corporate guarantees.
- For retail lending, mortgages over residential properties, cars, gold and jewellery and third party corporate guarantees.

Management requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Concentration of loans to customers

As at 31 December 2012, the concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 544,466 accounting for 17% of the gross loan portfolio of the Group (2011: GEL 402,989 and 15% respectively, 2010: GEL 383,971 and 15% respectively). An allowance of GEL 20,702 (2011: GEL 7,033, 2010: GEL 3,837) was established against these loans.

As at 31 December 2012, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 791,529 accounting for 25% of the gross loan portfolio of the Group (2011: GEL 523,401 and 20% respectively, 2010: GEL 484,034 and 19% respectively). An allowance of GEL 7,118 (2011: GEL 10,980, 2010: GEL 17,479) was established against these loans.

(Thousands of Georgian Lari)

10. Loans to Customers (continued)

Concentration of loans to customers (continued)

As at 31 December 2012, 31 December 2011 and 31 December 2010 loans are principally issued within Georgia, and their distribution by industry sector was as follows:

	2012	*2011*	*2010*
Individuals	1,233,614	1,132,740	1,006,046
Trade and services	1,053,579	972,290	858,878
Construction and development	218,103	228,412	274,623
Mining	347,505	122,771	137,583
Transport and communication	93,028	83,289	77,792
Energy	28,296	65,360	62,424
Agriculture	94,286	8,709	18,089
Others	75,293	54,568	91,798
Loans to customers, gross	**3,143,704**	**2,668,139**	**2,527,233**
Less – allowance for loan impairment	(110,037)	(114,697)	(175,536)
Loans to customers, net	**3,033,667**	**2,553,442**	**2,351,697**

Loans have been extended to the following types of customers:

	2012	*2011*	*2010*
Private companies	1,796,116	1,492,124	1,488,577
Individuals	1,233,614	1,132,740	1,006,046
State-owned entities	113,974	43,275	32,610
Loans to customers, gross	**3,143,704**	**2,668,139**	**2,527,233**
Less – allowance for loan impairment	(110,037)	(114,697)	(175,536)
Loans to customers, net	**3,033,667**	**2,553,442**	**2,351,697**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the years ended 31 December 2012, 31 December 2011 and 31 December 2010:

	2012			*2011*			*2010*		
	Individual impairment	***Collective impairment***	***Total***	***Individual impairment***	***Collective impairment***	***Total***	***Individual impairment***	***Collective impairment***	***Total***
	2012	***2012***	***2012***	***2011***	***2011***	***2011***	***2010***	***2010***	***2010***
At 1 January	**76,170**	**38,527**	**114,697**	**100,647**	**74,889**	**175,536**	**140,894**	**25,592**	**166,486**
Charge (reversal) for the year	27,606	11,580	39,186	20,135	3,081	23,216	(8,950)	58,836	49,886
Recoveries	21,296	8,683	29,979	16,563	12,286	28,849	25,247	17,492	42,739
Write-offs	(38,200)	(29,365)	(67,565)	(39,342)	(10,389)	(49,731)	(54,534)	(22,917)	(77,451)
Disposal of subsidiary	–	–	–	(16,110)	(40,065)	(56,175)	–	–	–
Interest accrued on impaired loans to customers	(3,853)	(2,557)	(6,410)	(6,094)	(1,211)	(7,305)	(7,216)	(1,523)	(8,739)
Currency translation differences	153	(3)	150	371	(64)	307	5,206	(2,591)	2,615
At 31 December	**83,172**	**26,865**	**110,037**	**76,170**	**38,527**	**114,697**	**100,647**	**74,889**	**175,536**

(Thousands of Georgian Lari)

11. Finance Lease Receivables

	2012	*2011*	*2010*
Minimum lease payments receivable	88,416	82,682	18,521
Less – Unearned finance lease income	(16,223)	(19,323)	(3,514)
	72,193	**63,359**	**15,007**
Less – Allowance for impairment	(507)	(440)	(588)
Finance lease receivables, net	**71,686**	**62,919**	**14,419**

The difference between the minimum lease payments to be received in the future and the finance lease receivables represents unearned finance income.

As at 31 December 2012, the concentration of investment in the largest lease comprised GEL 44,641 or 62% of total finance lease receivables (2011: GEL 47,792 or 75%, 2010: GEL 902 or 6%) and finance income received from it for the year ended 31 December 2012 comprised GEL 3,588 or 41% of total finance income from lease (2011: GEL 2,173 or 33%, 2010: GEL 186 or 4%).

Future minimum lease payments to be received after 31 December 2012, 31 December 2011 and 31 December 2010 are as follows:

	2012	*2011*	*2010*
Within 1 year	25,425	18,485	10,266
From 1 to 5 years	50,982	43,543	8,255
More than 5 years	12,009	20,654	–
Minimum lease payment receivables	**88,416**	**82,682**	**18,521**

Movements of the allowance for impairment of finance lease receivables are as follows:

	Finance lease receivables 2012	***Finance lease receivables 2011***	***Finance lease receivables 2010***
At 1 January	**440**	**588**	**7,144**
Charge (Reversal)	495	317	(5,775)
Amounts written-off	(428)	(193)	(1,210)
Currency translation differences	–	(272)	429
At 31 December	**507**	**440**	**588**
Individual impairment	102	93	232
Collective impairment	405	347	356
	507	**440**	**588**
Gross amount of lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**1,008**	**155**	–

(Thousands of Georgian Lari)

12. Investment Properties

	2012	2011	2010
At 1 January	**101,686**	**113,496**	**79,509**
Additions*	62,138	16,565	35,146
Disposals	(15,622)	(7,889)	(5,490)
Disposals through sale of subsidiary	–	(13,654)	–
Net gains from revaluation of investment property	–	1,984	350
Transfers from(to) property and equipment and other assets (Note 13)	12,151	(8,816)	3,981
At 31 December	**160,353**	**101,686**	**113,496**

* *Additions comprise foreclosed properties, no cash transactions were involved.*

Investment properties are stated at fair value. 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. The date of latest revaluation was 31 December 2011. As at 31 December 2012 the Group analyzed market prices for its investment properties and concluded that the market prices were not materially different from their carrying value.

Rental income and direct operating expenses arising from investment properties comprise:

	2012	2011	2010
Rental income	2,508	3,188	2,750
Direct operating expenses	(102)	(225)	(136)

The entire amount of direct operating expenses participated in the generation of rental income during the respective years.

(Thousands of Georgian Lari)

13. Property and Equipment

The movements in property and equipment during the year ended 31 December 2012 were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revalued amount							
31 December 2011	**233,306**	**107,584**	**56,659**	**8,518**	**7,953**	**20,694**	**434,714**
Acquisition through business combinations (Note 5)	36,359	–	3,302	–	–	15,799	55,460
Additions	7,354	8,756	16,458	3,230	306	24,082	60,186
Disposals	(2,226)	(2,272)	(448)	(2,105)	(1,266)	–	(8,317)
Disposals through sale of subsidiaries	–	(6)	–	(46)	–	–	(52)
Transfers	13,593	–	–	–	864	(14,457)	–
Transfers to investment properties	(1,520)	–	–	–	–	(10,631)	(12,151)
Transfers from (to) other assets	10	(14)	6,636	4	–	1,785	8,421
Effect of hyperinflation	3,086	210	347	48	60	76	3,827
Currency translation differences	(1,208)	(1,272)	(223)	(33)	(78)	(81)	(2,895)
31 December 2012	**288,754**	**112,986**	**82,731**	**9,616**	**7,839**	**37,267**	**539,193**
Accumulated impairment							
31 December 2011	**2,626**	**37**	**106**	**6**	**–**	**–**	**2,775**
Impairment charge	–	14	59	–	–	–	73
Disposals through sale of subsidiaries	–	(15)	(7)	–	–	–	(22)
Effect of hyperinflation	–	–	123	–	–	–	123
Currency translation differences	(437)	–	(182)	–	–	–	(619)
31 December 2012	**2,189**	**36**	**99**	**6**	**–**	**–**	**2,330**
Accumulated depreciation							
31 December 2011	**1,746**	**43,476**	**28,913**	**6,464**	**3,230**	**–**	**83,829**
Depreciation charge	3,026	11,288	7,536	1,768	1,409	–	25,027
Effect of hyperinflation	450	8	22	1	–	–	481
Currency translation differences	(25)	19	71	9	52	–	126
Transfers to other assets	–	(8)	(122)	–	–	–	(130)
Disposals	2	(373)	(150)	(1,834)	(966)	–	(3,321)
Disposals through sale of subsidiaries	–	(4)	–	(22)	–	–	(26)
31 December 2012	**5,199**	**54,406**	**36,270**	**6,386**	**3,725**	**–**	**105,986**
Net book value:							
31 December 2011	**228,934**	**64,071**	**27,640**	**2,048**	**4,723**	**20,694**	**348,110**
31 December 2012	**281,366**	**58,544**	**46,362**	**3,224**	**4,114**	**37,267**	**430,877**

(Thousands of Georgian Lari)

13. Property and Equipment (continued)

The movements in property and equipment during the year ended 31 December 2011 were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revalued amount							
31 December 2010	**150,516**	**100,559**	**42,183**	**8,341**	**7,530**	**42,766**	**351,895**
Acquisition through business combinations	26,055	1,958	9,461	260	–	646	38,380
Additions	10,696	11,440	8,467	1,803	328	44,029	76,763
Disposals	(3,474)	(293)	(944)	(716)	(743)	(686)	(6,856)
Disposals through sale of subsidiaries	(5,735)	(1,876)	(1,192)	(649)	(175)	(751)	(10,378)
Transfers	60,938	252	32	(122)	1,428	(62,528)	–
Transfers to investment properties	(2,500)	–	–	–	–	–	(2,500)
Revaluation	(1,561)	–	–	–	–	–	(1,561)
Effect of hyperinflation	9,474	439	703	153	99	172	11,040
Currency translation differences	(11,103)	(4,895)	(2,051)	(552)	(514)	(2,954)	(22,069)
31 December 2011	**233,306**	**107,584**	**56,659**	**8,518**	**7,953**	**20,694**	**434,714**
Accumulated impairment							
31 December 2010	**2,222**	**262**	**118**	**14**	**–**	**–**	**2,616**
Disposals through sale of subsidiaries	(1,307)	(261)	(49)	(13)	–	–	(1,630)
Effect of hyperinflation	2,186	34	81	7	–	–	2,308
Currency translation differences	(475)	2	(44)	(2)	–	–	(519)
31 December 2011	**2,626**	**37**	**106**	**6**	**–**	**–**	**2,775**
Accumulated depreciation							
31 December 2010	**1,629**	**32,192**	**21,901**	**5,187**	**2,518**	**–**	**63,427**
Depreciation charge	2,204	11,626	6,447	1,951	1,365	–	23,593
Effect of hyperinflation	35	112	286	55	9	–	497
Currency translation differences	(1,594)	(47)	1,080	(20)	(86)	–	(667)
Disposals	(83)	(283)	(694)	(673)	(546)	–	(2,279)
Disposals through sale of subsidiaries	(100)	(124)	(107)	(36)	(30)	–	(397)
Revaluation	(345)	–	–	–	–	–	(345)
31 December 2011	**1,746**	**43,476**	**28,913**	**6,464**	**3,230**	**–**	**83,829**
Net book value:							
31 December 2010	**146,665**	**68,105**	**20,164**	**3,140**	**5,012**	**42,766**	**285,852**
31 December 2011	**228,934**	**64,071**	**27,640**	**2,048**	**4,723**	**20,694**	**348,110**

The movements in property and equipment during the year ended 31 December 2010 were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revalued amount							
31 December 2009	**137,705**	**90,082**	**34,753**	**7,622**	**7,870**	**55,719**	**333,751**
Acquisition through business combinations	3,171	258	4,628	269	–	370	8,696
Additions	805	11,250	2,824	585	830	20,140	36,434
Disposals	(2,224)	(3,843)	(643)	(607)	(2,315)	(11,762)	(21,394)
Transfers	21,929	(17)	(19)	196	994	(23,083)	–
Transfers to investment properties	(3,714)	–	–	–	–	(267)	(3,981)
Revaluation	(9,365)	–	–	–	–	–	(9,365)
Currency translation differences	2,209	2,829	640	276	151	1,649	7,754
31 December 2010	**150,516**	**100,559**	**42,183**	**8,341**	**7,530**	**42,766**	**351,895**
Accumulated impairment							
31 December 2009	**3,435**	**262**	**200**	**14**	**–**	**–**	**3,911**
Impairment charge	435	–	–	–	–	–	435
Disposals	(1,648)	–	(82)	–	–	–	(1,730)
31 December 2010	**2,222**	**262**	**118**	**14**	**–**	**–**	**2,616**
Accumulated depreciation							
31 December 2009	**4,463**	**23,870**	**16,173**	**3,680**	**2,925**	**–**	**51,111**
Depreciation charge	3,891	11,510	6,048	1,715	1,346	–	24,510
Currency translation differences	103	31	6	19	–	–	159
Disposals	(322)	(3,219)	(326)	(227)	(1,753)	–	(5,847)
Revaluation	(6,506)	–	–	–	–	–	(6,506)
31 December 2010	**1,629**	**32,192**	**21,901**	**5,187**	**2,518**	**–**	**63,427**
Net book value:							
31 December 2009	**129,807**	**65,950**	**18,380**	**3,928**	**4,945**	**55,719**	**278,729**
31 December 2010	**146,665**	**68,105**	**20,164**	**3,140**	**5,012**	**42,766**	**285,852**

(Thousands of Georgian Lari)

13. Property and Equipment (continued)

Premises of the Group are subject to revaluation on a regular basis. The date of latest revaluation was 31 December 2010. As at 31 December 2012 and 31 December 2011 the Group analyzed market prices for its premises and concluded that the market price of premises was not materially different from their carrying value.

If the buildings had been measured using the cost model, the carrying amounts of the buildings as at 31 December 2012, 31 December 2011 and 31 December 2010 would have been as follows:

	2012	*2011*	*2010*
Cost	219,595	164,151	79,800
Accumulated depreciation and impairment	(11,465)	(8,012)	(7,550)
Net carrying amount	**208,130**	**156,139**	**72,250**

14. Goodwill

Movements in goodwill during the years ended 31 December 2012, 31 December 2011 and 31 December 2010, were as follows:

	2012	*2011*	*2010*
Cost			
1 January	**74,645**	**142,284**	**138,849**
Acquisition through business combinations (Note 5)	482	377	3,435
Disposals through sale of subsidiaries	(1,020)	(68,016)	–
31 December	**74,107**	**74,645**	**142,284**
Accumulated impairment			
1 January	**28,450**	**73,072**	**73,072**
Impairment charge	655	23,394	–
Disposals through sale of subsidiaries	(655)	(68,016)	–
31 December	**28,450**	**28,450**	**73,072**
Net book value:			
1 January	**46,195**	**69,212**	**65,777**
31 December	**45,657**	**46,195**	**69,212**

The impairment charge of goodwill in 2012 was in respect of JSC Intertour – GEL 655. The impairment charge of goodwill in 2011 was in respect of JSC Belarusky Narodny Bank – GEL 23,394. The main reason for impairment was insufficient future operating cash flows expected to be received per the forecasts of the respective cash generating units.

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to four individual cash-generating units, which are also reportable segments, for impairment testing: corporate banking, retail banking, insurance and liberty consumer.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2012	*2011*	*2010*
Insurance & Healthcare	19,821	19,339	18,962
Retail banking	12,433	12,433	12,433
Corporate banking	9,965	9,965	9,965
Liberty Consumer	3,438	4,458	4,458
BNB & BGB	–	–	23,394
Total	**45,657**	**46,195**	**69,212**

(Thousands of Georgian Lari)

14. Goodwill (continued)

Key assumptions used in value in use calculations

The recoverable amounts of the cash generating units have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering from one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets.

The following rates were used by the Group for corporate banking and retail banking:

	Corporate Banking			*Retail Banking*		
	2012, %	*2011, %*	*2010, %*	*2012, %*	*2011, %*	*2010, %*
Discount rate	8.5%	8.5%	8.9%	8.5%	8.5%	8.9%

The following rates were used by the Group for Insurance & Healthcare and Liberty Consumer:

	Insurance & Healthcare			*Liberty Consumer*		
	2012, %	*2011, %*	*2010, %*	*2012, %*	*2011, %*	*2010, %*
Discount rate	13.3%	13.3%	12.6%	14.5%	14.5%	14.5%

The following rates were used by the Group for BNB & BGB:

	BNB & BGB	
	2011, %	*2010, %*
Discount rate	8.5%	8.9%

Discount rates

Discount rates reflect management's estimate of return of capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using WACC.

15. Taxation

The corporate income tax (expense) benefit comprises:

	2012	*2011*	*2010*
Current income tax (expense) benefit	(23,469)	4,985	(12,365)
Deferred income tax expense	(9,731)	(2,923)	(3,411)
Income tax (expense) benefit	**(33,200)**	**2,062**	**(15,776)**
Income tax expense attributable to continuing operations	**(33,200)**	**(21,125)**	**(15,776)**
Income tax benefit attributable to a discontinued operation	**–**	**23,187**	**–**
Deferred income tax benefit from continuing operations in other comprehensive income (loss)	(2,826)	5,581	206
Deferred income tax benefit from discontinued operations in other comprehensive income (loss)	–	625	–
Total deferred income tax (expense) benefit recognised in other comprehensive income (loss)	**(2,826)**	**6,206**	**206**

(Thousands of Georgian Lari)

15. Taxation (continued)

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2012, 2011 and 2010 was as follows:

	2012	*2011*	*2010*
Currency translation differences	654	6,175	–
Net (gains) losses on investment securities available-for-sale	(3,480)	124	146
Revaluation of buildings	–	(93)	(58)
Other	–	–	118
Income tax (expense) benefit to other comprehensive income (loss)	**(2,826)**	**6,206**	**206**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which ranges from 15% to 23% (2011: from 15% to 23%, 2010: from 15% to 26%). Reconciliation between the expected and the actual taxation charge is provided below.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2012, 31 December 2011 and 31 December 2010 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2012	*2011*	*2010*
Profit before income tax (expense) benefit from continuing operations	215,945	172,054	98,443
Net loss before income tax benefit from discontinued operations	–	(38,406)	–
Profit before income tax (expense) benefit	**215,945**	**133,648**	**98,443**
Statutory tax rate	15%	15%	15%
Theoretical income tax expense at statutory tax rate	**(32,392)**	**(20,047)**	**(14,766)**
Tax at the domestic rates applicable to profits in the respective country	(1,417)	(2,050)	(291)
Correction of prior year declarations	–	8,408	–
Loss on disposal of subsidiary *	–	18,593	–
Other operating income	–	–	229
State securities at lower tax rates	–	–	564
Non-deductible expenses	–	(3,509)	(1,694)
Other	609	667	182
Income tax (expense) benefit	**(33,200)**	**2,062**	**(15,776)**
Income tax expense attributable to continuing operations	(33,200)	(21,125)	(15,776)
Income tax benefit attributable to a discontinued operation	–	23,187	–
Income tax (expense) benefit	**(33,200)**	**2,062**	**(15,776)**

**** This is loss recognised in tax declaration of 2011 from disposal of PJSC Bank Pershyi (formerly known as JSC BG Bank).***

(Thousands of Georgian Lari)

15. Taxation (continued)

Applicable taxes in Georgia and Belarus include corporate income tax (profit 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 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.

Deferred tax assets and liabilities as at 31 December and their movements for the respective years follows:

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*					*Origination and reversal of temporary differences*			
	2009	***In the income statement***	***In other compre-hensive income***	***Effect of business combi-nation***	***2010***	***In the income statement***	***In other compre-hensive income***	***Effect of business combi-nation***	***Disposal of subsidiary***	***2011***	***In the income statement***	***In other compre-hensive income***	***Disposal of Subsi-diary***	***2012***
Tax effect of deductible temporary differences:														
Amounts due to credit institutions	–	–	–	–	–	1,264	–	–	–	1,264	(1,209)	–	–	55
Investment securities: available-for-sale	911	20	279	–	1,210	(988)	522	–	(7)	737	(749)	19	–	7
Loans to customers	10,129	440	–	–	10,569	(345)	(36)	–	(10,188)	–	–	–	–	–
Allowance for loan impairment	–	–	–	–	–	18	(9)	–	–	9	–	(9)	–	–
Allowance for loan impairment	–	–	–	–	–	–	–	–	–	–	(12)	23	–	11
Amounts due to customers	–	–	–	–	–	26	(13)	–	–	13	85	–	–	98
Other insurance liabilities & pension fund obligations	–	–	–	–	–	275	176	–	–	451	(2)	(179)	–	270
Investment properties	1,604	349	–	–	1,953	(12)	(1,604)	–	(337)	–	–	–	–	–
Reinsurance assets	372	(117)	–	–	255	–	(27)	–	–	228	(228)	–	–	–
Insurance premiums receivables	1,697	–	–	–	1,697	–	–	–	–	1,697	(373)	–	–	1,324
Allowances for impairment and provisions for other losses	1,197	867	–	–	2,064	–	(722)	–	–	1,342	(283)	–	–	1,059
Tax losses carried forward	19,492	(15,020)	–	–	4,472	3,714	5,181	–	(1,035)	12,332	(2,417)	(746)	(24)	9,145
Finance lease receivables	319	–	–	–	319	23	(35)	–	–	307	(34)	(14)	–	259
Intangible assets	264	24	–	–	288	28	(135)	–	–	181	11	–	–	192
Property and equipment	2,221	(20)	290	78	2,569	(33)	(358)	–	–	2,178	(1,238)	(7)	–	933
Other assets	822	147	34	–	1,003	81	(103)	–	(13)	968	460	(40)	(26)	1,362
Other liabilities	1,925	(698)	–	–	1,227	604	(83)	–	(218)	1,530	(909)	(83)	–	538
Gross deferred tax assets	**40,953**	**(14,008)**	**603**	**78**	**27,626**	**4,655**	**2,754**	**–**	**(11,798)**	**23,237**	**(6,898)**	**(1,036)**	**(50)**	**15,253**
Unrecognised deferred tax assets	(131)	131	–	–	–	–	–	–	–	–	–	–	–	–
Deferred tax assets	**40,822**	**(13,877)**	**603**	**78**	**27,626**	**4655**	**2754**	**–**	**(11,798)**	**23,237**	**(6,898)**	**(1,036)**	**(50)**	**15,253**
Tax effect of taxable temporary differences:														
Fair value measurement of securities	–	203	–	–	203	–	(203)	–	–	–	–	–	–	–
Amounts due to credit institutions	1,734	39	–	–	1,773	(8)	–	–	(31)	1,734	(1,662)	–	–	72
Amounts due to customers	508	1,078	(119)	–	1,467	(7)	(8)	–	(942)	510	(510)	–	–	–
Securities available-for-sale	182	249	133	–	564	(1,157)	593	–	–	–	(150)	2,526	–	2,376
Loans to customers	20,879	(10,314)	–	–	10,565	(1,452)	(91)	–	–	9,022	(14)	–	–	9,008
Allowance for loan impairment	–	–	–	–	–	622	(307)	–	–	315	(11)	–	–	304
Reinsurance assets	27	13	–	–	40	–	(27)	–	–	13	63	–	–	76
Finance lease receivables	–	–	–	–	–	9	(4)	–	–	5	(5)	–	–	–
Allowances for impairment and provisions for other losses	–	770	–	–	770	(13)	(602)	–	–	155	(169)	14	–	–
Other insurance liabilities & pension fund obligations	–	7	–	–	7	218	179	–	–	404	446	–	–	850
Property and equipment	22,451	(3,756)	348	379	19,422	6,474	(957)	1,167	57	26,163	3,309	310	–	29,782
Investment properties	548	20	–	–	568	1,697	(1,650)	–	–	615	(152)	(2)	–	461
Intangible assets	2,412	1,364	–	–	3,776	814	(175)	–	(99)	4,316	571	–	–	4,887
Other assets	783	(677)	35	–	141	1,163	(256)	–	–	1,048	399	(203)	–	1,244
Other liabilities	472	538	–	43	1,053	(782)	56	–	–	327	718	(855)	(29)	161
Deferred tax liabilities	**49,996**	**(10,466)**	**397**	**422**	**40,349**	**7,578**	**(3,452)**	**1,167**	**(1,015)**	**44,627**	**2,833**	**1,790**	**(29)**	**49,221**
Net deferred tax assets (liabilities)	**(9,174)**	**(3,411)**	**206**	**(344)**	**(12,723)**	**(2,923)**	**6,206**	**(1,167)**	**(10,783)**	**(21,390)**	**(9,731)**	**(2,826)**	**(21)**	**(33,968)**

(Thousands of Georgian Lari)

16. Other Assets and Other Liabilities

Other assets comprise:

	2012	*2011*	*2010*
Insurance premiums receivable	68,947	24,052	21,413
Inventory	44,380	27,903	9,828
Derivative financial assets	36,784	36,823	2,933
Accounts receivable	25,559	24,126	17,093
Settlements on operations	10,931	1,972	5,182
Operating taxes receivable	9,883	4,683	1,793
Reinsurance assets	8,279	8,859	7,307
Receivables from money transfers	4,619	4,937	3,358
Receivables from documentary operations	2,990	1,026	1,338
Assets purchased for finance lease purposes	1,654	1,877	1,434
Trading securities owned	971	1,115	1,218
Foreclosed assets	900	169	1,049
Receivables from sale of assets	872	663	797
Operating lease receivables	547	309	266
Prepayments for purchase of property and equipment	–	–	959
Assets held-for-sale	–	–	314
Other	18,101	6,556	2,447
	235,417	**145,070**	**78,729**
Less – Allowance for impairment of other assets	(14,375)	(7,502)	(3,309)
Other assets	**221,042**	**137,568**	**75,420**

Inventories mainly comprises GEL 32,458 affordable housing apartments under construction (2011: GEL 19,151, 2010: 3,036), GEL 5,698 medical supplies held by the healthcare segment (2011: GEL 2,368, 2010 GEL 271) and GEL 5,618 of winery business related materials and finished goods (2011: GEL 5,971, 2010: 5,406).

Other liabilities comprise:

	2012	*2011*	*2010*
Insurance contracts liabilities	79,839	35,009	32,695
Deferred income and other accruals	31,975	8,915	3,268
Accounts payable	13,556	35,025	2,617
Accruals for employee compensation	14,093	40,825	25,111
Other insurance liabilities	10,861	8,534	4,431
Creditors	9,911	1,751	8,412
Pension benefit obligations	8,758	6,353	4,949
Derivative financial liabilities	4,867	15,856	17,525
Other taxes payable	1,930	2,777	2,418
Dividends payable	393	359	303
Amounts payable for share acquisitions	–	1	259
Amounts payable for purchase of intangible assets	–	–	9
Other	8,041	3,057	4,790
Other liabilities	**184,224**	**158,462**	**106,787**

(Thousands of Georgian Lari)

16. Other Assets and Other Liabilities (continued)

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2012		
	Notional amount	*Fair value Asset*	*Fair value Liability*
Interest rate contracts			
Forwards and Swaps – foreign	148,137	–	4,783
Foreign exchange contracts			
Forwards and Swaps – domestic	41,693	542	–
Forwards and Swaps – foreign	120,493	35,976	84
Equity / Commodity contracts			
Call options – foreign	3,313	266	–
Total derivative assets / liabilities	**313,636**	**36,784**	**4,867**

	2011			*2010*		
	Notional amount	*Fair value Asset*	*Fair value Liability*	*Notional amount*	*Fair value Asset*	*Fair value Liability*
Interest rate contracts						
Forwards and Swaps – foreign	263,309	–	9,542	338,369	–	14,527
Foreign exchange contracts						
Forwards and Swaps – domestic	97,781	275	196	66,058	777	597
Forwards and Swaps – foreign	255,348	35,850	5,791	–	–	–
Options – foreign	–	–	–	54,121	1,815	2,211
Equity / Commodity contracts						
Call options – foreign	5,010	698	–	3,014	341	–
Embedded derivatives from investment deposits	–	–	327	–	–	190
Total derivative assets / liabilities	**621,448**	**36,823**	**15,856**	**461,562**	**2,933**	**17,525**

17. Amounts Due to Customers

The amounts due to customers include the following:

	2012	*2011*	*2010*
Time deposits	1,325,544	908,577	953,399
Current accounts	1,297,367	1,645,507	1,051,299
Promissory notes issued	70,114	181,138	21,610
Amounts due to customers	**2,693,025**	**2,735,222**	**2,026,308**
Held as security against letters of credit and guarantees (Note 19)	**31,439**	**24,353**	**20,336**

As at 31 December 2012, 31 December 2011 and 31 December 2010, promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. The average effective maturity of the notes was 3 months (2011: 5 months, 2010: 10 months).

At 31 December 2012, amounts due to customers of GEL 462,815 (17%) were due to the 10 largest customers (2011: GEL 580,710 (21%), 2010: 363,420 (18%).

(Thousands of Georgian Lari)

17. Amounts due to customers (continued)

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

	2012	*2011*	*2010*
Private enterprises	1,300,487	1,290,908	964,150
Individuals	1,238,135	1,056,852	894,312
State and budget organizations	154,403	387,462	167,846
Amounts due to customers	**2,693,025**	**2,735,222**	**2,026,308**

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

	2012	*2011*	*2010*
Individuals	1,238,135	1,056,852	894,312
Trade and services	712,794	655,551	421,138
State and budget organizations	154,403	387,462	167,846
Energy	241,807	239,797	256,275
Construction and development	145,919	175,906	93,827
Mining and processing	59,129	131,734	113,283
Transport and communication	35,235	36,871	35,226
Agriculture	4,502	14,844	21,379
Other	101,101	36,205	23,022
Amounts due to customers	**2,693,025**	**2,735,222**	**2,026,308**

18. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2012	*2011*	*2010*
Borrowings from international credit institutions	596,700	449,220	400,740
Eurobonds	420,849	95,954	270,880
Short-term loans from the National Bank of Georgia	310,178	–	–
Time deposits and inter-bank loans	113,222	42,837	130,284
Correspondent accounts	7,969	15,331	4,717
Subtotal	**1,448,918**	**603,342**	**806,621**
Non-convertible subordinated debt	208,244	234,012	245,508
Convertible subordinated debt	–	83,818	86,798
Total subordinated debt	**208,244**	**317,830**	**332,306**
Amounts due to credit institutions	**1,657,162**	**921,172**	**1,138,927**

During the year ended 31 December 2012 the Group received short-term funds from Georgian banks in different currencies.

During the year ended 2012 the Group paid up to 9.65% on USD borrowings from international credit institutions (2011: up to 9.65%, 2010: up to 9.00%). During the year ended 2012 the Group paid up to 11.65% on USD subordinated debt (2011, 2010: up to 11.65%).

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants") that the Group maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2012, 31 December 2011 and 31 December 2010 the Group complied with all the Lender Covenants of the borrowings from international credit institutions.

(Thousands of Georgian Lari)

18. Amounts Due to Credit Institutions (continued)

The borrowings received on 13 January 2009 from the European Bank for Reconstruction and Development ("EBRD") and International Financial Corporation ("IFC"), comprising USD 26,044 thousand (GEL 43,441) each, had an equity conversion feature valid for 5 years from the loan granting date (the "Convertibility Period"). On 24 February 2012 EBRD and IFC utilized the equity conversion feature and converted the largest portion of their respective loans to the Bank into the Bank's shares (the "Loan Conversion"). A total nominal (contractual) amount of USD 49,903 thousand (GEL 81,023) was converted into 3,635,006 newly issued ordinary shares of the Bank (Note 20).

In accordance with the terms and conditions of the Loan Participation Notes due to BG Finance B.V. in 2012 (ISIN: XS0283756624; Common Code: 028375662), on 8 February 2012 (the "Maturity Date") the Notes were redeemed in full. Notes with a par value of USD 144,493 thousand (GEL 241,347) had been repurchased by the Bank prior to the Maturity Date, recognising a net of GEL 260 gain on early redemptions and the remaining Notes (with a par value of USD 55,507 thousand, GEL 92,580) were repaid at the Maturity Date.

On 5 July 2012 the Bank completed the issuance of its USD 250 million (GEL 411 million) 7.75% notes due 2017. The Regulation S / Rule 144A 5-year senior unsecured notes carry a 7.75% coupon rate per annum, paid semi-annually, and were issued and sold at closing at a price of 99.491% of principal amount. Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities Ltd. and Merrill Lynch International acted as Joint Lead Managers and Bookrunners for the notes. Dechert LLP and Baker & McKenzie LLP acted as legal advisors to the Joint Lead Managers and the Bank, respectively. The notes are rated BB- (Fitch) / Ba3 (Moody's) / BB- (Standard & Poor's). The notes are listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's Regulated Market.

19. 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

As at 31 December 2012, 31 December 2011 and 31 December 2010 the Group's financial commitments and contingencies comprised the following:

	2012	*2011*	*2010*
Credit-related commitments			
Guarantees issued	502,511	463,393	374,230
Undrawn loan facilities	140,003	120,339	138,057
Letters of credit	100,023	70,224	58,779
	742,537	**653,956**	**571,066**
Operating lease commitments			
Not later than 1 year	5,666	5,040	7,016
Later than 1 year but not later than 5 years	11,722	9,979	13,984
Later than 5 years	2,172	3,122	6,037
	19,560	**18,141**	**27,037**
Capital expenditure commitments	**3,069**	**47,918**	**39,523**
Less – Cash held as security against letters of credit and guarantees (Note 17)	(31,439)	(24,353)	(20,336)
Less – Provisions	(683)	(386)	(4,407)
Less – Receivables related to letters of credit	–	(515)	–
Financial commitments and contingencies, net	**733,044**	**694,761**	**612,883**

As at 31 December 2012 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 948 and software and other intangible assets of GEL 2,121. As at 31 December 2011 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 41,119 and software and other intangible assets of GEL 6,799. As at 31 December 2010 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 32,311 and software and other intangible assets of GEL 7,212.

(Thousands of Georgian Lari)

20. Equity

Share capital

As at 31 December 2012, issued share capital comprised 36,512,553 common shares, of which 36,512,553 were fully paid (31 December 2011: 43,308,125 authorized common shares, of which 32,877,547 were issued and fully paid, 31 December 2010: 43,308,125 authorized common shares, of which 31,344,860 were issued and fully paid). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 31 December 2012 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2009	**31,306,071**	**31,306**
Increase in share capital arising from share-based payments	38,789	39
31 December 2010	**31,344,860**	**31,345**
Increase in share capital arising from issuance of GDRs	1,500,000	1,500
Increase in share capital arising from share-based payments	32,687	33
31 December 2011	**32,877,547**	**32,878**
Issue of share capital (Note 18)	3,635,006	3,635
31 December 2012	**36,512,553**	**36,513**

On 24 February 2012 EBRD and IFC utilized the convertibility feature and converted USD 49,903 of their loans to the Bank into the Bank's shares (Note 18). Total number of ordinary shares issued under this transaction comprised 3,635,006.

On 28 February 2012 the Group completed the Tender Offer under which 35,909,383 of the Bank's shares then outstanding (or 98.35 per cent) were converted into 35,909,383 shares of BGH (Note 1).

Share capital of the Group was paid by the shareholders in Georgian Lari and they were entitled to dividends in Georgian Lari before the Tender Offer and are entitled to dividends in British Pound Sterling after the Tender Offer.

Treasury shares

The number of treasury shares held by the Group as at 31 December 2012 comprised 463,590 (31 December 2011: 3,146,140, 31 December 2010: 1,509,086).

Treasury shares of GEL 464 as at 31 December 2012 comprise the Bank's shares owned by the Group (31 December 2011: GEL 1,208, 2010: GEL 1,072). 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.

During the year ended 31 December 2011, an increase in share capital of GEL 1,500 was made for future share-based compensation purposes. As a result, treasury shares amounting to GEL 1,938 as at 31 December 2011 (2010: GEL 438) were kept by the Group's custodian – Abacus Corporate Trustee Limited, acting as the trustee of the Group. Starting 20 February 2012, all shares of the Bank kept by Abacus Corporate Trustee Limited were converted into the Group's shares.

During the year ended 31 December 2011, 32,687 ordinary shares of GEL 33 par value and additional paid-in capital of GEL 620 have been vested as compensation to top management (2010: 38,789 ordinary shares of GEL 39 par value and additional paid-in capital of GEL 523).

Dividends

On 25 May 2012, the annual general meeting of shareholders' of JSC Bank of Georgia declared 2012 dividends comprising Georgian Lari 0.7 per share, based on 2011 audited financial results. Dividend record date was set as 8 June 2012. The currency conversion date was set at 25 June 2012, with the official GEL – GBP exchange rate of 2.5626, resulting in a GBP denominated dividend of 0.2732 per share. Payment of the total GEL 25,267 dividends was received by shareholders on 25 June 2012.

On 15 June 2011, the annual general meeting of shareholders' of JSC Bank of Georgia declared 2011 dividends comprising Georgian Lari 0.3 per share, based on 2010 audited financial results. The declaration is effective from 1 July 2011. Payment of the total GEL 9,169 dividends was received by shareholders on 18 July 2011.

No dividends were declared nor paid during 2010.

(Thousands of Georgian Lari)

20. Equity (continued)

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings 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.

Unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries

This reserve records unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries.

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 the years ended 31 December 2012, 31 December 2011 and 31 December 2010 are presented in the statements of other comprehensive income.

Earnings per share

	2012	*2011*	*2010*
Basic earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	178,921	132,531	83,640
Profit for the year from continuing operations attributable to ordinary shareholders of the Group	178,921	147,750	83,640
Weighted average number of ordinary shares outstanding during the year	33,142,027	29,866,366	30,037,041
Basic earnings per share	5.3986	4.4375	2.7846
Basic earnings per share from continuing operations	5.3986	4.9470	2.7846
Dilution effect			
Interest expenses on convertible debt instruments, net of tax	1,116	8,029	8,143
Number of dilutive potential ordinary shares	526,381	3,635,006	3,474,614
Diluted earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	180,037	140,560	91,783
Profit for the year from continuing operations attributable to ordinary shareholders of the Group	180,037	155,779	91,783
Weighted average number of diluted ordinary shares outstanding during the year	33,668,408	33,501,372	33,511,655
Diluted earnings per share	5.3474	4.1957	2.7388
Diluted earnings per share from continuing operations	5.3474	4.6499	2.7388

During the years ended 31 December 2011 and 31 December 2010 dilutive potential ordinary shares were accounted for by convertible loans granted by EBRD and IFC.

On 24 February 2012 the Bank converted certain part of its loans taken from EBRD and IFC into 3,635,006 ordinary shares of the Bank (Note 18). Their conversion decreased earnings per share from continuing operations. However, it also reduced the Group's interest expense on these debt instruments and increased the total profit attributable to ordinary shareholders of the Group.

(Thousands of Georgian Lari)

21. Net Fee and Commission Income

	2012	*2011*	*2010*
Settlements operations	69,208	62,015	50,511
Guarantees and letters of credit	26,846	17,528	12,362
Cash operations	8,826	9,048	8,061
Currency conversion operations	1,802	1,507	677
Brokerage service fees	911	1,033	545
Advisory	–	1,668	1,129
Other	1,685	742	980
Fee and commission income	**109,278**	**93,541**	**74,265**
Settlements operations	(14,841)	(12,255)	(7,324)
Guarantees and letters of credit	(4,046)	(1,856)	(1,164)
Cash operations	(1,510)	(2,424)	(780)
Insurance brokerage service fees	(722)	(543)	(646)
Currency conversion operations	(73)	(550)	(14)
Other	(1,018)	(576)	(917)
Fee and commission expense	**(22,210)**	**(18,204)**	**(10,845)**
Net fee and commission income	**87,068**	**75,337**	**63,420**

22. Net Insurance Revenue

Net insurance premiums earned, net insurance claims incurred and respective net insurance revenue for the years ended 31 December 2012, 31 December 2011 and 31 December 2010 comprised:

	2012	*2011*	*2010*
Life insurance contracts premium written	4,069	2,200	2,562
General insurance contracts premium written	113,810	54,241	53,744
Total premiums written	**117,879**	**56,441**	**56,306**
Gross change in life provision	(98)	82	96
Gross change in general insurance contracts unearned premium provision	(14,931)	135	(1,001)
Total gross premiums earned on insurance contracts	**102,850**	**56,658**	**55,401**
Reinsurers' share of life insurance contracts premium written	(658)	(148)	(1,321)
Reinsurers' share of general insurance contracts premium written	(8,925)	(9,750)	(11,038)
Reinsurers' share of change in life provision	(65)	(183)	(57)
Reinsurers' share of change in general insurance contracts unearned premium provision	(2,026)	(181)	1,576
Total reinsurers' share of gross earned premiums on insurance contracts	**(11,674)**	**(10,262)**	**(10,840)**
Net insurance premiums earned	**91,176**	**46,396**	**44,561**
Life insurance claims paid	(539)	(465)	(1,272)
General insurance claims paid	(60,323)	(30,850)	(28,493)
Total insurance claims paid	**(60,862)**	**(31,315)**	**(29,765)**
Reinsurers' share of life insurance claims paid	84	428	988
Reinsurers' share of general insurance claims paid	1,282	1,186	1,497
Gross change in total reserves for claims	1,742	774	(1,486)
Reinsurers' share of change in total reserves for claims	716	269	868
Net insurance claims incurred	**(57,038)**	**(28,658)**	**(27,898)**
Net insurance revenue	**34,138**	**17,738**	**16,663**

(Thousands of Georgian Lari)

23. Net Healthcare Revenue

	2012	*2011*	*2010*
Revenue from free flow (non-insured retail individuals)	21,133	1,847	501
Revenue from insurance companies	16,937	1,507	152
Revenue from government programmes	13,184	217	–
Other revenue from medical services	3,122	2,129	1,555
Healthcare revenue	**54,376**	**5,700**	**2,208**
Direct salary expenses	(21,980)	(1,938)	(999)
Direct materials	(6,799)	(632)	(139)
Expenses on medical service providers	(2,081)	(474)	(351)
Other direct expenses	(170)	(198)	(143)
Cost of healthcare services	**(31,030)**	**(3,242)**	**(1,632)**
Net healthcare revenue	**23,346**	**2,458**	**576**

24. Salaries and Other Employee Benefits, and General and Administrative Expenses

	2012	*2011*	*2010*
Salaries and bonuses	(119,789)	(113,214)	(102,686)
Social security costs	(1,510)	(1,408)	(1,199)
Salaries and other employee benefits	**(121,299)**	**(114,622)**	**(103,885)**

The average number of staff employed by the Group for the years ended 31 December 2012, 31 December 2011 and 31 December 2010 comprised:

	2012	*2011*	*2010*
The Bank	3,523	3,229	2,921
Insurance segment	459	324	309
BNB segment *	290	338	728
Other	750	758	758
Average number of staff employed excluding healthcare**	**5,022**	**4,649**	**4,716**
Healthcare segment	4,288	955	436
Average total number of staff employed	**9,310**	**5,604**	**5,152**

**** JSC Belarusky Narodny Bank and JSC BG BANK (for 2011 and 2010).***
***** Salary expenses on staff employed in the healthcare segment are included in cost of healthcare services.***

Salaries and bonuses include GEL 17,122, GEL 12,092 and GEL 8,920 of the Executives' Equity Compensation Plan costs for the years ended 31 December 2012, 31 December 2011 and 31 December 2010, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 26 and 30).

	2012	*2011*	*2010*
Repairs and maintenance	(11,164)	(6,330)	(6,205)
Legal and other professional services	(8,975)	(6,077)	(6,149)
Marketing and advertising	(9,603)	(15,614)	(12,534)
Occupancy and rent	(9,457)	(9,396)	(10,082)
Office supplies	(8,344)	(3,350)	(3,786)
Operating taxes	(4,824)	(4,464)	(4,188)
Communication	(4,593)	(4,679)	(4,975)
Corporate hospitality and entertainment	(2,669)	(1,889)	(1,709)
Security	(1,964)	(2,061)	(3,055)
Travel expenses	(1,403)	(2,412)	(1,975)
Personnel training and recruitment	(854)	(733)	(416)
Insurance	(397)	(232)	(678)
Penalties	(318)	(329)	(178)
Banking services	(62)	(874)	(756)
Other	(1,059)	(3,502)	(3,882)
General and administrative expenses	**(65,686)**	**(61,942)**	**(60,568)**

(Thousands of Georgian Lari)

25. Net Non-operating Expenses

Net non-operating expenses for the year ended 31 December 2012 include GEL 6,191 in relation to the costs of BGH's admission to the premium listing segment of the Official List of the UK Listing Authority and GEL 8,413 in relation to impairment of several investments. Net non-operating expenses for the year ended 31 December 2011 include GEL 23,394 in relation to impairment of goodwill on JSC Belarusky Narodny Bank and GEL 6,431 loss on early repurchase of the Bank's Eurobonds. All other amounts included in this caption for the years ended 31 December 2012, 31 December 2011 and 31 December 2010 are not individually significant, and therefore have not been disclosed separately.

26. Share-based Payments

Executives' Equity Compensation Plan

Abacus Corporate Trustee Limited (the "Trustee") acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP").

In February 2010 the Bank's Supervisory Board resolved to recommend to the Trustee to award 432,495 Bank's ordinary shares in the form of restricted GDRs to the Group's 19 executives pursuant to the EECP in respect of the year ended 31 December 2009. The awards are subject to three-year vesting, with a continuous employment being the only vesting condition. The Group considers 18 February 2010 as the grant date. The Group estimates that the fair value of the shares awarded on 18 February 2010 was Georgian Lari 17.29 per share.

Additionally, in March 2010 the Deputies of the CEO of the Bank and in May 2010 CEO of the Bank signed three-year fixed contingent share-based compensation agreements with the Bank for the total of 915,000 GDRs. The total amount of GDRs fixed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2011, of which each award will be subject to a four-year vesting period. The Group considers 29 March 2010 as the grant date for the awards of the Deputies and 25 May 2010 as the grant date for the award of the CEO. The Group estimates that the fair value of the shares on 29 March 2010 was Georgian Lari 18.48 per share and the fair value of shares awarded on 25 May 2010 was Georgian Lari 18.16.

In February 2011 the Bank's Supervisory Board resolved to award 143,500 ordinary shares in the form of GDRs to the members of the Management Board and 123,800 ordinary shares in the form of GDRs to the Groups' 24 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 24 executives are subject to three-year vesting, with a continuous employment being the only vesting condition for both awards. The Group considers 21 February 2011 as the grant date. The Group estimates that the fair value of the shares awarded on 21 February 2011 was Georgian Lari 35.86 per share.

In March 2012 the Bank's Supervisory Board resolved to award 220,000 ordinary shares of BGH to the members of the Management Board and 262,443 ordinary shares of BGH to the Group's 28 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 24 executives are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 6 March 2012 as the grant date. The Group estimates that the fair value of the shares awarded on 6 March 2012 was Georgian Lari 26.07 per share.

The Bank grants share compensation to its mid-management employees too. In March 2012, in February 2011 and in February 2010, the Supervisory Board of the Bank resolved to award 42,600, 20,485 and nil ordinary shares to its mid-management employees, respectively. All these awards are subject to three-year vesting, with a continuous employment being the only vesting condition for all awards. The Group considers 6 March 2012, 21 February 2011 and 18 February 2010 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 6 March 2012, 21 February 2011 and 18 February 2010 were Georgian Lari 26.07, 35.86 and 17.29 per share, respectively.

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 22.92 per share in year ended 31 December 2012 (31 December 2011: Georgian Lari 32.94 per share, 31 December 2010: Georgian Lari 17.96).

The Group's total share-based payment expenses for the year ended 31 December 2012 comprised GEL 17,122 (31 December 2011: GEL 12,092, 31 December 2010: 8,920) and are included in "salaries and other employee benefits", as "salaries and bonuses".

(Thousands of Georgian Lari)

26. Share-based Payments (continued)

Summary (continued)

Below is the summary of the share-based payments related data:

	2012	*2011*	*2010*
Total number of equity instruments awarded	792,443	333,584	1,380,707
– *Among them, to top management* and supervisory board members*	*124,000*	*52,687*	*500,711*
Weighted average value at grant date, per share (GEL in full amount)	22.92	32.94	17.96
Value at grant date, total (GEL)	**18,162**	**10,989**	**24,802**
Total expense recognised during the year (GEL) (Notes 26 and 30)	**(17,122)**	**(12,092)**	**(8,920)**

*** The Chairman and the Chief Executive Officer for the periods prior to 1 January 2011 and the Chief Executive Officer only since 1 January 2011.**

27. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

Audit Committee
The Audit Committee is an independent body and is directly monitored by the Board. It has the overall responsibility for developing and implementation of overall risk assessment and risk mitigation strategies, principles, frameworks, policies and limits. The Audit Committee is responsible for the fundamental risk issues and manages and monitors relevant risk decisions covering, but not limited to: macroeconomic and environmental risks, general control environment, manual and application controls, risks of intentionally or unintentional misstatements, risk of fraud or misappropriation of assets, information security, anti-money laundering, information technology risks, etc.

Management Board
The Management Board has the responsibility to monitor and manage entire risk process within the Group, on a regular basis, by assigning tasks, creating different executive committees, designing and setting up risk management policies and procedures as well as respective guidelines and controlling their implementation and performance of relevant departments and committees.

Bank Asset and Liability Management Committee
The Bank's Asset and Liability Management Committee ("ALCO") is the core risk management body. It is responsible for managing the Bank's assets and liabilities, all risks associated with them as well as overall financial structure of the Group. It is also primarily responsible for the funding, capital adequacy risk, liquidity risks and market risks of the Bank.

Internal Audit
Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Introduction (continued)

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is Base Case (forecast under normal business conditions) and the other two are Troubled and Distressed Scenarios, which are worse and the worst case scenarios, respectively, that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate credit exposures and their limits, exceptions to those limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Management Board receives a comprehensive Credit Risk report and ALCO report once a month. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. While these are intended for hedging, these do not qualify for hedge accounting.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or these counterparties represent related parties to each other, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to the total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio of both, financial assets as well as financial liabilities. Identified concentrations of credit risks or liquidity / repayment risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits.

(Thousands of Georgian Lari)

27. Risk Management (continued)

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision.

The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group through internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Group's credit rating system.

		Neither past due nor impaired				
31 December 2012	***Notes***	***High grade***	***Standard grade***	***Sub-standard grade***	***Past due or individually impaired***	***Total***
Amounts due from credit institutions	8	396,559	–	–	–	396,559
Debt investment securities available-for-sale	9	458,017	–	–	–	458,017
Loans to customers:	10					
Commercial loans		1,372,889	62,048	73,681	169,006	1,677,624
Consumer loans		530,333	18,945	1,181	41,509	591,968
Micro and SME loans		376,940	14,789	1,842	6,982	400,553
Residential mortgage loans		358,742	18,692	3,305	17,375	398,114
Gold – pawn loans		75,445	–	–	–	75,445
		2,714,349	**114,474**	**80,009**	**234,872**	**3,143,704**
Finance lease receivables	11	19,153	1,770	440	50,830	72,193
Total		**3,588,078**	**116,244**	**80,449**	**285,702**	**4,070,473**

		Neither past due nor impaired				
31 December 2011	***Notes***	***High grade***	***Standard grade***	***Sub-standard grade***	***Past due or individually impaired***	***Total***
Amounts due from credit institutions	8	289,530	–	–	–	289,530
Debt investment securities available-for-sale	9	408,075	–	–	–	408,075
Loans to customers:	10					
Commercial loans		1,030,959	75,009	37,888	219,202	1,363,058
Consumer loans		469,374	13,517	1,224	32,618	516,733
Residential mortgage loans		344,593	12,872	1,477	32,055	390,997
Micro and SME loans		306,124	5,031	1,494	5,917	318,566
Gold – pawn loans		78,785	–	–	–	78,785
		2,229,835	**106,429**	**42,083**	**289,792**	**2,668,139**
Finance lease receivables	11	57,647	4,222	913	577	63,359
Total		**2,985,087**	**110,651**	**42,996**	**290,369**	**3,429,103**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

31 December 2010	Notes	Neither past due nor impaired: High grade	Neither past due nor impaired: Standard grade	Neither past due nor impaired: Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	115,622	847	–	–	116,469
Debt investment securities:						
Available-for-sale	9	285,628	–	–	–	285,628
Held-to-maturity		21	–	–	–	21
		285,649	**–**	**–**	**–**	**285,649**
Loans to customers:	10					
Commercial loans		924,320	254,675	42,449	203,106	1,424,550
Consumer loans		324,474	13,889	9,251	62,172	409,786
Residential mortgage loans		334,430	13,841	703	34,641	383,615
Micro and SME loans		220,820	4,317	3,636	9,689	238,462
Gold – pawn loans		66,749	–	–	–	66,749
Other		2,168	696	7	1,200	4,071
		1,872,961	**287,418**	**56,046**	**310,808**	**2,527,233**
Finance lease receivables	11	10,533	311	872	3,291	15,007
Total		**2,284,765**	**288,576**	**56,918**	**314,099**	**2,944,358**

Past due loans to customers, analyzed by age below, include those that are past due by not more than a few days. These loans are not impaired.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. Attributable risk ratings are assessed and updated regularly.

The credit risk assessment policy for non-past due and individually non-impaired financial assets has been determined by the Group as follows:

- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due no more than 30 days is assessed as a financial asset with High Grade;
- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 30 but less than 60 days is assessed as a financial asset with Standard Grade;
- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 60 days or borrower of this loan has at least an additional borrowing in past due more than 60 days as at reporting date is assessed as a financial asset with Sub-Standard Grade.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

Aging analysis of past due but not impaired loans per class of financial assets

31 December 2012	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Consumer loans	17,803	13	5	5	17,826
Commercial loans	634	1,534	7,891	6,679	16,738
Residential mortgage loans	3,453	1,605	650	948	6,656
Micro and SME loans	1,099	–	–	263	1,362
Finance lease receivables	4,144	535	44850	293	49,822
Total	**27,133**	**3,687**	**53,396**	**8,188**	**92,404**

31 December 2011	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Consumer loans	17,399	24	–	–	17,423
Commercial loans	2,124	48	–	11,000	13,172
Residential mortgage loans	8,345	645	56	1,300	10,346
Micro and SME loans	425	–	–	–	425
Finance lease receivables	332	47	–	43	422
Total	**28,625**	**764**	**56**	**12,343**	**41,788**

31 December 2010	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Consumer loans	12,538	11	3	93	12,645
Residential mortgage loans	6,967	1,387	275	1,956	10,585
Commercial loans	2,925	–	2,115	5,290	10,330
Micro and SME loans	503	6	128	–	637
Other	–	144	84	–	228
Finance lease receivables	1,212	–	–	2,079	3,291
Total	**24,145**	**1,548**	**2,605**	**9,418**	**37,716**

See Notes 10 and 11 for more detailed information with respect to the allowance for impairment of loans to customers and finance lease receivables, respectively.

The Group specifically monitors performance of the loans with overdue payments in arrears for more than 90 days. The gross carrying value (i.e. carrying value before deducting any allowance for impairment) of such loans comprised GEL 82,524, GEL 87,836 and GEL 117,580 as at 31 December 2012, 31 December 2011 and 31 December 2010, respectively.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2012	*2011*	*2010*
Loans to customers:			
Commercial loans	86,910	108,730	263,163
Residential mortgage loans	7,312	7,453	4,386
Micro and SME loans	2,754	1,814	4,664
Consumer loans	1,573	960	2,092
Finance lease receivables	1,170	–	1,882
Total	**99,719**	**118,957**	**276,187**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by any number of days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. Loans are considered to be individually impaired if they are past due by more than only a few days or there are clear indications that the borrower already faces business, financial or other type of problems that hinder its / his /her ability to serve contractual obligations with the Group. Impairment for all such loans is assessed individually, rather than applying standard collective impairment rates based on just prior history of losses of the Group.

Individually assessed allowances

For loan loss allowance determination purposes the Group considers all individually significant loans and classifies them between being individually impaired or not impaired. The allowance for those individually significant loans that are determined to be individually impaired (see definition above) is determined through individual assessment of the associated credit risk by assigning a proper credit rating. The allowances for non-significant loans that are determined to be individually impaired (see definition above) are also individually assessed. The allowance for losses for individually significant loans that are determined not to be individually impaired is assessed through the collective assessment approach described below. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, the timing of the expected cash flows and past history of the debt service of the borrower. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for all loans (including but not limited to credit cards, residential mortgages, and unsecured consumer lending, commercial lending, etc.), both, significant as well as non-significant, where there is not yet objective evidence of individual impairment (see definition above) . Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes into account the impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year, depending on a product. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision is made in a similar manner as for loans.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

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

	2012			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*
Assets:				
Cash and cash equivalents	430,523	273,637	46,357	750,517
Amounts due from credit institutions	340,177	23,659	32,723	396,559
Investment securities available-for-sale	460,102	70,738	3,858	534,698
Loans to customers	2,908,489	13,033	112,145	3,033,667
Finance lease receivables	66,487	–	5,199	71,686
All other assets	810,823	16,085	112,983	939,891
	5,016,601	**397,152**	**313,265**	**5,727,018**
Liabilities:				
Amounts due to customers	1,854,152	265,838	573,035	2,693,025
Amounts due to credit institutions	393,345	1,180,989	82,828	1,657,162
All other liabilities	227,776	11,513	7,756	247,045
	2,475,273	**1,458,340**	**663,619**	**4,597,232**
Net balance sheet position	**2,541,328**	**(1,061,188)**	**(350,354)**	**1,129,786**

	2011				*2010*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	312,697	301,166	14,868	628,731	188,426	364,616	58,542	611,584
Amounts due from credit institutions	282,353	387	6,790	289,530	91,715	14,538	10,216	116,469
Investment securities:								
– available-for-sale	419,555	–	21	419,576	290,333	60	4,547	294,940
– held-to-maturity	–	–	–	–	21	–	–	21
Loans to customers	2,508,545	–	44,897	2,553,442	2,135,962	8	215,727	2,351,697
Finance lease receivables	59,479	–	3,440	62,919	10,036	–	4,383	14,419
All other assets	691,047	253	19,763	711,063	498,175	9,508	108,109	615,792
	4,273,676	**301,806**	**89,779**	**4,665,261**	**3,214,668**	**388,730**	**401,524**	**4,004,922**
Liabilities:								
Amounts due to customers	2,514,541	108,337	112,344	2,735,222	1,659,774	101,960	264,574	2,026,308
Amounts due to credit institutions	42,761	788,067	90,344	921,172	145,398	962,691	30,838	1,138,927
All other liabilities	193,198	–	3,066	196,264	135,794	4,232	6,320	146,346
	2,750,500	**896,404**	**205,754**	**3,852,658**	**1,940,966**	**1,068,883**	**301,732**	**3,311,581**
Net balance sheet position	**1,523,176**	**(594,598)**	**(115,975)**	**812,603**	**1,273,702**	**(680,153)**	**99,792**	**693,341**

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Liquidity risk and funding management (continued)

The liquidity position is assessed and managed by the Group primarily on a standalone Bank basis, based on certain liquidity ratios established by the NBG. As at 31 December these ratios were as follows:

	2012, %	*2011, %*	*2010, %*
Average liquidity ratio	40.0%	36.9%	35.6%
Maximum liquidity ratio	49.1%	47.2%	44.5%
Minimum liquidity ratio	31.1%	29.6%	29.1%

The average liquidity ratio is calculated on a standalone basis for JSC Bank of Georgia as the annual average (arithmetic mean) of daily liquidity ratios, computed as the ratio of liquid assets to liabilities determined by the National Bank of Georgia as follows:

Liquid assets comprise cash, cash equivalents and other assets that are immediately convertible into cash. Those assets include investment securities issued by the Georgian Government plus Certificates of Deposit issued by NBG and do not include amounts due from credit institutions, other than inter-bank deposits, and/or debt securities of Governments and Central Banks of non-OECD countries, amounts in nostro accounts which are under lien, impaired inter-bank deposits and amounts on obligatory reserve with NBG that are pledged due to borrowings from NBG.

Liabilities comprise the total balance sheet liabilities, less amounts due to credit institutions that are to be exercised or settled later than six months from the reporting date, plus off-balance sheet commitments with residual maturity subsequent to the reporting date of less than six months. Off-balance sheet commitments include all commitments except financial guarantees and letters of credit that are fully collateralized by cash covers in the Bank, and commitments due to dealing operations with foreign currencies. The maximum and minimum liquidity ratios are taken from historical data of the appropriate reporting years.

The Group also matches the maturity of financial assets and financial liabilities and imposes a maximum limit on negative gaps compared to the Bank's standalone total regulatory capital calculated per NBG regulation. The ratios are assessed and monitored monthly and compared against set limits. In the case of deviations, amendment strategies / actions are discussed and approved by ALCO.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment 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 Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities **As at 31 December 2012**	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	1,759,707	638,935	371,691	33,548	2,803,881
Amounts due to credit institutions	465,376	221,460	1,108,551	177,950	1,973,337
Other liabilities	27,565	76,982	9,356	–	113,903
Total undiscounted financial liabilities	**2,252,648**	**937,377**	**1,489,598**	**211,498**	**4,891,121**

Financial liabilities **As at 31 December 2011**	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	1,908,942	654,219	236,243	13,543	2,812,947
Amounts due to credit institutions	195,670	122,709	499,370	434,038	1,251,787
Other liabilities	26,926	53,099	19,783	–	99,808
Total undiscounted financial liabilities	**2,131,538**	**830,027**	**755,396**	**447,581**	**4,164,542**

Financial liabilities **As at 31 December 2010**	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	1,394,442	528,346	153,963	8,859	2,085,610
Amounts due to credit institutions	151,404	145,753	780,504	530,547	1,608,208
Other liabilities	8,049	33,571	15,649	4,949	62,218
Total undiscounted financial liabilities	**1,553,895**	**707,670**	**950,116**	**544,355**	**3,756,036**

(Thousands of Georgian Lari)

27. Risk Management (continued)

Liquidity risk and funding management (continued)

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
31 December 2012	337,465	177,907	236,948	12,846	765,166
31 December 2011	335,550	267,617	103,870	12,978	720,015
31 December 2010	245,684	290,662	76,464	24,816	637,626

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The maturity analysis 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.

Included in due to customers are term deposits of individuals. In accordance with the Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 17).

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using sensitivity analysis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Group's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2012. During the year ended 31 December 2012, year ended 31 December 2011 and year ended 31 December 2010, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*Increase in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of other comprehensive income 2012*
GEL	0.17%	(40)	–
USD	0.01%	(49)	–

Currency	*Decrease in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of other comprehensive income 2012*
GEL	0.17%	40	–
USD	0.01%	49	–

(Thousands of Georgian Lari)

27. Risk Management (continued)

Market risk (continued)

Currency	*Increase in basis points 2011*	*Sensitivity of net interest income 2011*	*Sensitivity of other comprehensive income 2011*
EUR	0.42%	101	–
USD	0.02%	51	–

Currency	*Decrease in basis points 2011*	*Sensitivity of net interest income 2011*	*Sensitivity of other comprehensive income 2011*
EUR	-0.42%	(101)	–
USD	-0.02%	(51)	–

Currency	*Increase in basis points 2010*	*Sensitivity of net interest income 2010*	*Sensitivity of other comprehensive income 2010*
EUR	0.01%	1	–
USD	0.00%	46	–
UAH	0.75%	–	34

Currency	*Decrease in basis points 2010*	*Sensitivity of net interest income 2010*	*Sensitivity of other comprehensive income 2010*
EUR	-0.01%	(1)	–
USD	-0.00%	(46)	–
UAH	-0.75%	–	(34)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored daily.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2012 on its trading and non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the last month. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended 31 December 2012, year ended 31 December 2011 and year ended 31 December 2010, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
	2012		*2011*		*2010*	
EUR	2.6%	(2,079)	4.4%	2,392	0.8%	234
GBP	1.8%	(19)	3.2%	13	0.8%	1
USD	0.8%	(2,331)	1.3%	1,927	0.3%	323

(Thousands of Georgian Lari)

27. Risk Management (continued)

Market risk (continued)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar or whatever reasons.

The Group calculates effect of early repayments by calculating the weighted average rates of early repayments across each loan product individually, applying these historical rates to the outstanding carrying amount of respective products as at the reporting date and multiplying by the weighted average effective annual interest rates for each product. The model does not make a distinction between different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties, as the Group's income.

The estimated effect of prepayment risk on profit and equity of the Group for the year ended 31 December is as follows:

	Effect on net interest income
2012	(3,971)
2011	(5,416)
2010	(67,605)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Operating environment

Most of the Group's business in concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity markets). However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

(Thousands of Georgian Lari)

28. 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 31 December 2012*
Financial assets				
Investment securities available-for-sale	70,785	458,025	5,888	534,698
Other assets – derivative financial assets	–	36,784	–	36,784
Other assets – trading securities owned	971	–	–	971
	71,756	**494,809**	**5,888**	**572,453**
Financial liabilities				
Other liabilities – derivative financial liabilities	–	4,867	–	4,867
	–	**4,867**	**–**	**4,867**

	Level 1	*Level 2*	*Level 3*	*Total 31 December 2011*
Financial assets				
Investment securities available-for-sale	346	415,196	4,034	419,576
Other assets – derivative financial assets	63	36,760	–	36,823
Other assets – trading securities owned	1,115	–	–	1,115
	1,524	**451,956**	**4,034**	**457,514**
Financial liabilities				
Other liabilities – derivative financial liabilities	5,925	9,931	–	15,856
	5,925	**9,931**	**–**	**15,856**

	Level 1	*Level 2*	*Level 3*	*Total 31 December 2010*
Financial assets				
Investment securities available-for-sale	4,958	284,573	5,409	294,940
Other assets – derivative financial assets	2,250	683	–	2,933
Other assets – trading securities owned	1,218	–	–	1,218
	8,426	**285,256**	**5,409**	**299,091**
Financial liabilities				
Other liabilities – derivative financial liabilities	2,211	15,314	–	17,525
	2,211	**15,314**	**–**	**17,525**

(Thousands of Georgian Lari)

28. Fair Values of Financial Instruments (continued)

Financial instruments recorded at fair value (continued)

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.

Derivative financial instruments

Derivative financial instruments 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 tables show a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	At 1 January 2010	*Purchase of AFS securities*	*At 31 December 2010*	*Sale of AFS securities*	*At 31 December 2011*	*Sale of AFS securities*	*Transfers from level 2*	*At 31 December 2012*
Level 3 financial assets								
Equity investment securities available-for-sale	4,265	1,144	5,409	(1,375)	4,034	(1,983)	3,837	5,888

The transfer of GEL 3,837 in 2012 was the 19.4% stake in PJSC Bank Pershyi. Gains or losses on level 3 financial instruments during year ended 31 December 2012 were nil.

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*	*Carrying amount*	*Effect of reasonably possible alternative assumptions*
	2012		*2011*		*2010*	
Level 3 financial assets						
Equity investment securities available-for-sale	5,888	+/- 886	4,034	+/- 607	5,409	+/- 814

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

For equities, the Group adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

(Thousands of Georgian Lari)

28. Fair Values of Financial Instruments (continued)

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.

	Carrying value 2012	*Fair value 2012*	*Unrecognised loss 2012*
Financial assets			
Cash and cash equivalents	750,517	750,517	–
Amounts due from credit institutions	396,559	396,559	–
Loans to customers	3,033,667	3,008,665	(25,002)
Finance lease receivables	71,686	71,686	–
Financial liabilities			
Amounts due to customers	2,693,025	2,707,231	(14,206)
Amounts due to credit institutions	1,657,162	1,657,162	–
Total unrecognised change in unrealised fair value			**(39,208)**

	Carrying value 2011	*Fair value 2011*	*Unrecognised gain (loss) 2011*	*Carrying value 2010*	*Fair value 2010*	*Unrecognised loss 2010*
Financial assets						
Cash and cash equivalents	628,731	628,731	–	611,584	611,584	–
Amounts due from credit institutions	289,530	289,530	–	116,469	116,469	–
Investment securities held-to-maturity	–	–	–	21	21	–
Loans to customers	2,553,442	2,546,648	(6,794)	2,351,697	2,319,388	(32,309)
Finance lease receivables	62,919	62,919	–	14,419	14,419	–
Financial liabilities						
Amounts due to customers	2,735,222	2,758,210	(22,988)	2,026,308	2,041,403	(15,095)
Amounts due to credit institutions	921,172	921,172	–	1,138,927	1,138,927	–
Total unrecognised change in unrealised fair value			**(29,782)**			**(47,404)**

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.

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 demand deposits, savings accounts without a 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.

(Thousands of Georgian Lari)

29. 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. See Note 27 "Risk management" for the Group's contractual undiscounted repayment obligations.

2012	On Demand	≤ 3 Months	≤ 6 Months	≤ 1 Year	≤ 3 Years	≤ 5 Years	> 5 Years	Total
Financial assets								
Cash and cash equivalents	586,852	163,665	–	–	–	–	–	750,517
Amounts due from credit institutions	322,871	48,143	5,790	4,557	9,136	4,448	1,614	396,559
Investment securities available–for–sale	75,938	168,670	114,920	41,159	76,185	51,777	6,049	534,698
Loans to customers	–	605,509	312,302	626,152	935,203	361,248	193,253	3,033,667
Finance lease receivables	–	9,058	5,716	10,353	25,886	13,049	7,624	71,686
Total	**985,661**	**995,045**	**438,728**	**682,221**	**1,046,410**	**430,522**	**208,540**	**4,787,127**
Financial liabilities								
Amounts due to customers	355,835	453,796	214,743	1,337,512	283,000	39,694	8,445	2,693,025
Amounts due to credit institutions	40,321	436,155	49,362	164,137	341,179	524,309	101,699	1,657,162
Total	**396,156**	**889,951**	**264,105**	**1,501,649**	**624,179**	**564,003**	**110,144**	**4,350,187**
Net	**589,505**	**105,094**	**174,623**	**(819,428)**	**422,231**	**(133,481)**	**98,396**	**436,940**

2011	On Demand	≤ 3 Months	≤ 6 Months	≤ 1 Year	≤ 3 Years	≤ 5 Years	> 5 Years	Total
Financial assets								
Cash and cash equivalents	526,706	102,025	–	–	–	–	–	628,731
Amounts due from credit institutions	268,100	277	858	8,213	7,191	–	4,891	289,530
Investment securities available–for–sale	23,607	146,809	114,167	55,596	65,893	13,500	4	419,576
Loans to customers	2,245	498,214	258,886	471,732	723,420	345,412	253,533	2,553,442
Finance lease receivables	218	5,196	3,990	7,363	20,871	12,667	12,614	62,919
Total	**820,876**	**752,521**	**377,901**	**542,904**	**817375**	**371,579**	**271,042**	**3,954,198**
Financial liabilities								
Amounts due to customers	643,135	401,885	267,389	1,224,352	185,878	6,416	6,167	2,735,222
Amounts due to credit institutions	26,936	158,368	27,832	51,985	181,448	118,839	355,764	921,172
Total	**670,071**	**560,253**	**295,221**	**1,276,337**	**367,326**	**125,255**	**361,931**	**3,656,394**
Net	**150,805**	**192,268**	**82,680**	**(733,433)**	**450,049**	**246,324**	**(90,889)**	**297,804**

(Thousands of Georgian Lari)

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

	2010							
	On Demand	***≤ 3 Months***	***≤ 6 Months***	***≤ 1 Year***	***≤ 3 Years***	***≤ 5 Years***	***> 5 Years***	***Total***
Financial assets								
Cash and cash equivalents	511,169	100,415	–	–	–	–	–	611,584
Amounts due from credit institutions	68,443	27,017	4,843	7,404	4,210	–	4,552	116,469
Investment securities:								
– available–for–sale	19,829	131,528	58,782	32,396	52,405	–	–	294,940
– held-to-maturity	–	–	–	21	–	–	–	21
Loans to customers	9,425	504,875	252,605	425,009	582,586	341,819	235,378	2,351,697
Finance lease receivables	142	3,265	2,192	3,229	4,922	669	–	14,419
Total	**609,008**	**767,100**	**318,422**	**468,059**	**644,123**	**342,488**	**239,930**	**338,9130**
Financial liabilities								
Amounts due to customers	269,673	414,905	139,635	1,057,158	129,691	9,363	5,883	2,026,308
Amounts due to credit institutions	25,835	142,401	865	24,285	333,663	45,299	566,579	1,138,927
Total	**295,508**	**557,306**	**140,500**	**1,081,443**	**463,354**	**54,662**	**572,462**	**3,165,235**
Net	**313,500**	**209,794**	**177,922**	**(613,384)**	**180,769**	**287,826**	**(332,532)**	**223,895**

The Group's capability to discharge its liabilities relies on its ability to realise equivalent assets within the same period of time. In the Georgian marketplace, where most of the Group's business is concentrated, 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. To reflect the historical stability of current accounts, the Group calculates the minimal daily balance of current accounts over the past two years and includes the amount in less than 1 year category in the table above. The remaining current accounts are included in on demand category.

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 at 31 December 2012 amounts due to customers amounted to GEL 2,693,025 (2011: GEL 2,735,222, 2010: GEL 2,026,308) and represented 59% (2011: 71%, 2010: 61%) of the 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 at 31 December 2012 amounts owed to credit institutions amounted to GEL 1,657,162 (2011: GEL 921,172, 2010: GEL 1,138,927) and represented 36% (2011: 24%, 2010: 34%) of total liabilities.

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

(Thousands of Georgian Lari)

30. 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. All transactions with related parties disclosed below have been conducted on an arm's length basis.

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	2012		
	Share-holders	*Asso-ciates*	*Key management personnel**
Loans outstanding at 1 January, gross	–	**304**	**6,558**
Loans issued during the year	13,033	–	7,457
Loan repayments during the year	–	(259)	(8,389)
Other movements	–	(45)	(490)
Loans outstanding at 31 December, gross	**13,033**	–	**5,136**
Less: allowance for impairment at 31 December	–	–	76
Loans outstanding at 31 December, net	**13,033**	–	**5,212**
Interest income on loans	–	14	640
Loan impairment charge	–	–	(1)
Deposits at 1 January	**–**	**171**	**5,903**
Deposits received during the year	–	11,040	28,561
Deposits repaid during the year	–	(11,191)	(25,264)
Other movements	–	(3)	481
Deposits at 31 December	**–**	**17**	**9,681**
Interest expense on deposits	–	(26)	(612)
Other income	–	–	121

	2011		
	Share-holders	*Asso-ciates***	*Key management personnel**
Loans outstanding at 1 January, gross	**–**	**2,191**	**4,758**
Loans issued during the year	–	954	7,951
Loan repayments during the year	–	(5,493)	(6,663)
Other movements	–	2,652	512
Loans outstanding at 31 December, gross	**–**	**304**	**6,558**
Less: allowance for impairment at 31 December	–	2	115
Loans outstanding at 31 December, net	**–**	**306**	**6,673**
Interest income on loans	–	870	718
Loan impairment charge	–	2	32
Deposits at 1 January	**36,410**	**726**	**8,999**
Deposits received during the year	35,365	24,660	21,574
Deposits repaid during the year	(32,147)	(25,229)	(22,254)
Other movements	(2,898)	14	(2,416)
Deposits at 31 December	**36,730**	**171**	**5,903**
Interest expense on deposits	(3,019)	(33)	(441)
Other income	693	–	78

	2010		
	Share-holders	*Asso-ciates*	*Key management personnel**
Loans outstanding at 1 January, gross	**–**	**9,255**	**5,791**
Loans issued during the year	–	624	7,125
Loan repayments during the year	–	(707)	(6,877)
Other movements	–	(6,981)	(1,281)
Loans outstanding at 31 December, gross	**–**	**2,191**	**4,758**
Less: allowance for impairment at 31 December	–	(1,564)	(119)
Loans outstanding at 31 December, net	**–**	**627**	**4,639**
Interest income on loans	–	344	611
Loan impairment charge	–	661	65
Deposits at 1 January	**12,098**	**506**	**6,919**
Deposits received during the year	41,646	16,185	36,658
Deposits repaid during the year	(16,851)	(16,127)	(33,522)
Other movements	(483)	162	(1,056)
Deposits at 31 December	**36,410**	**726**	**8,999**
Interest expense on deposits	(1,681)	(68)	(471)
Other income	1,671	–	69

**** Key management personnel include members of the Bank's Supervisory Board, Chief Executive Officer and Deputies.***
***** During the year ended 31 December 2011 loans to two legal entities, controlling stakes of which were owned by a member of the Bank's Management Board and a member of the Bank's Supervisory Board, were outstanding. A total of GEL 775 interest income was recognised on these loans in the consolidated income statement for the year ended 31 December 2011. GEL 36 gross loan remained outstanding as at 31 December 2011 and was completely repaid during 2012.***

Compensation of key management personnel comprised the following:

	2012	**2011**	**2010**
Salaries and other benefits	2,656	2,803	4,564
– Among them, termination benefits	–	–	*426*
Share-based payments compensation (Notes 24 and 26)	8,048	8,308	7,156
– Among them, termination benefits	–	–	*1,183*
Social security costs	24	37	31
Total key management compensation	**10,728**	**11,148**	**11,751**

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 26). The number of key management personnel at 31 December 2012 was 15 (31 December 2011: 16, 31 December 2010: 13).

(Thousands of Georgian Lari)

31. 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 year ended 31 December 2012, the Bank and the Group complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Group 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 shareholder 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 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 standalone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 31 December 2012, 31 December 2011 and 31 December 2010 the Bank's capital adequacy ratio on this basis was as follows:

	2012	*2011*	*2010*
Core capital	739,880	512,238	494,128
Supplementary capital	389,685	463,825	423,389
Less: Deductions from capital	(262,616)	(184,323)	(367,418)
Total regulatory capital	**866,949**	**791,740**	**550,099**
Risk-weighted assets	**5,352,187**	**4,872,931**	**3,800,624**
Total capital adequacy ratio	**16.2%**	**16.2%**	**14.5%**

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.

Capital adequacy ratio under Basel Capital Accord 1988

The Group's capital adequacy ratio computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2012, 31 December 2011 and 31 December 2010, was as follows:

	2012	*2011*	*2010*
Tier 1 capital	1,060,678	764,377	637,971
Tier 2 capital	297,236	380,301	404,788
Less: Deductions from capital	(46,121)	(49,341)	(70,722)
Total capital	**1,311,793**	**1,095,337**	**972,037**
Risk-weighted assets	**4,785,870**	**3,839,462**	**3,653,247**
Total capital ratio	27.4%	28.5%	26.6%
Tier 1 capital ratio	22.2%	19.9%	17.5%
Minimum capital adequacy ratio	**8.0%**	**8.0%**	**8.0%**

Bank of Georgia and Subsidiaries Consolidated Financial Statements

31 December 2011
Together with Independent Auditors' Report

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of JSC Bank of Georgia and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of JSC Bank of Georgia and its subsidiaries as at 31 December 2011 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG LLC

23 March 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

(Thousands of Georgian Lari)

	Notes	2011	2010	2009
Assets				
Cash and cash equivalents	7	628,731	611,584	357,889
Amounts due from credit institutions	8	289,530	116,469	64,620
Investment securities:				
– available-for-sale	11	419,576	294,940	19,590
– held-to-maturity	11	–	21	249,196
Loans to customers	9	2,553,442	2,351,697	1,661,331
Finance lease receivables	10	62,919	14,419	16,896
Investments in associates	12	3,014	5,632	10,323
Investment properties	13	101,686	113,496	79,509
Property and equipment	14	348,110	285,852	278,729
Goodwill	15	46,195	69,212	65,777
Other intangible assets	15	21,222	22,390	19,665
Current income tax assets	16	8,487	2,247	7,997
Deferred income tax assets	16	14,852	18,178	15,487
Prepayments		29,929	23,365	18,140
Other assets	18	137,568	75,420	48,280
Total assets		**4,665,261**	**4,004,922**	**2,913,429**
Liabilities				
Amounts due to customers	20	2,735,222	2,026,308	1,273,130
Amounts due to credit institutions	19	921,172	1,138,927	928,615
Current income tax liabilities	16	1,174	4,251	574
Deferred income tax liabilities	16	36,242	30,901	24,661
Provisions	17, 22	386	4,407	2,126
Other liabilities	18	158,462	106,787	85,906
Total liabilities		**3,852,658**	**3,311,581**	**2,315,012**
Equity	21			
Share capital		32,878	31,345	31,306
Additional paid-in capital		473,732	477,285	478,779
Treasury shares		(3,146)	(1,510)	(1,677)
Other reserves		14,478	26,816	24,387
Retained earnings		254,588	130,314	46,163
Total equity attributable to shareholders of the Bank		**772,530**	**664,250**	**578,958**
Non-controlling interests		40,073	29,091	19,459
Total equity		**812,603**	**693,341**	**598,417**
Total liabilities and equity		**4,665,261**	**4,004,922**	**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

23 March 2012

The accompanying notes on pages 8 to 94 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

(Thousands of Georgian Lari)

	Notes	2011	2010	2009
Interest income				
Loans to customers		438,989	389,402	361,176
Investment securities – available-for-sale		37,701	7,287	1,276
Amounts due from credit institutions		18,103	9,795	5,037
Finance lease receivables		6,565	4,159	5,844
Investment securities – held-to-maturity		–	12,498	5,725
		501,358	**423,141**	**379,058**
Interest expense				
Amounts due to customers		(167,294)	(114,968)	(96,935)
Amounts due to credit institutions		(99,763)	(91,829)	(91,582)
		(267,057)	**(206,797)**	**(188,517)**
Net interest income before net gains (losses) from derivative financial instruments		**234,301**	**216,344**	**190,541**
Net gains (losses) from derivative financial instruments		4,984	(7,826)	(6,266)
Net interest income		**239,285**	**208,518**	**184,275**
Fee and commission income		93,541	74,265	64,599
Fee and commission expense		(18,204)	(10,845)	(9,574)
Net fee and commission income	23	**75,337**	**63,420**	**55,025**
Net insurance premiums earned		46,396	44,561	45,477
Net insurance claims incurred		(28,658)	(27,898)	(30,102)
Net insurance revenue	24	**17,738**	**16,663**	**15,375**
Net gains from trading securities and investment securities available-for-sale		1,382	2,006	2,937
Net gains (losses) from revaluation of investment properties	13	1,984	350	(4,087)
Net gains from foreign currencies:				
– dealing		45,694	33,651	25,945
– translation differences	25	30,747	98	3,138
Other operating income		29,052	21,927	12,283
Other operating non-interest income		**108,859**	**58,032**	**40,216**
Revenue		**441,219**	**346,633**	**294,891**
Salaries and other employee benefits	26	(119,111)	(104,551)	(100,505)
General and administrative expenses	26	(61,942)	(61,000)	(57,339)
Depreciation and amortization	14,15	(27,254)	(27,963)	(25,428)
Other operating expenses		(9,324)	(6,253)	(11,740)
Other operating non-interest expenses		**(217,631)**	**(199,767)**	**(195,012)**
Operating income before cost of credit risk		**223,588**	**146,866**	**99,879**

The accompanying notes on pages 8 to 94 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year ended 31 December 2011

(Thousands of Georgian Lari)

	Notes	2011	2010	2009
Operating income before cost of credit risk		**223,588**	**146,866**	**99,879**
Impairment charge on loans to customers	9	(23,216)	(49,886)	(118,882)
(Impairment charge) reversal of impairment on finance lease receivables	10	(317)	5,775	(6,859)
Impairment reversal (charge) on other assets and provisions	17	1,337	(3,587)	(6,431)
Cost of credit risk		**(22,196)**	**(47,698)**	**(132,172)**
Net operating income (loss)		**201,392**	**99,168**	**(32,293)**
Impairment charge on goodwill	15	(23,394)	–	(73,072)
Impairment charge on property and equipment	14	–	(435)	(3,200)
Total impairment of goodwill and property and equipment		**(23,394)**	**(435)**	**(76,272)**
Share of (loss) profit of associates	12	(487)	255	(2,649)
Gain from hyperinflation	27	5,169	–	–
Other non-operating income	28	2,903	–	5,308
Other non-operating expenses	28	(13,529)	(545)	–
Non-operating (expense) income		**(5,944)**	**(290)**	**2,659**
Profit (loss) before income tax (expense) benefit from continuing operations		**172,054**	**98,443**	**(105,906)**
Income tax (expense) benefit	16	(21,125)	(15,776)	6,998
Profit (loss) for the year from continuing operations		**150,929**	**82,667**	**(98,908)**
Net loss from discontinued operations	29	(15,219)	–	–
Profit (loss) for the year		**135,710**	**82,667**	**(98,908)**
Attributable to:				
– shareholders of the Bank		132,531	83,640	(91,370)
– non-controlling interests		3,179	(973)	(7,538)
		135,710	**82,667**	**(98,908)**
Earnings (loss) per share, total:	21			
– basic earnings (loss) per share		4.4375	2.7846	(2.9963)
– diluted earnings (loss) per share		4.1957	2.7388	(2.9963)
Earnings (loss) per share from continuing operations:	21			
– basic earnings (loss) per share from continuing operations		4.9470	2.7846	(2.9963)
– diluted earnings (loss) per share from continuing operations		4.6499	2.7388	(2.9963)

The accompanying notes on pages 8 to 94 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

(Thousands of Georgian Lari)

	Notes	2011	2010	2009
Profit (loss) for the year from continuing operations		**150,929**	**82,667**	**(98,908)**
Net loss from discontinued operations	29	(15,219)	–	–
Profit (loss) for the year		**135,710**	**82,667**	**(98,908)**
Other comprehensive (loss) income from continuing operations				
– Revaluation of property & equipment	14, 29	1,285	(2,859)	(1,842)
– Revaluation of available-for-sale securities		3,511	6,077	7,533
– Realized gain on available-for-sale securities reclassified to the consolidated income statement		(1,721)	(789)	(174)
– (Loss) gain from currency translation differences	21	(52,493)	5,116	(12,145)
Income tax relating to components of other comprehensive income	16	5,581	206	(704)
Other comprehensive (loss) income for the year from continuing operations, net of tax		**(43,837)**	**7,751**	**(7,332)**
Other comprehensive gain from discontinued operations	29	24,254	–	–
Other comprehensive (loss) income for the year, net of tax		**(19,583)**	**7,751**	**(7,332)**
Total comprehensive income (loss) for the year from continuing operations		107,092	90,418	(106,240)
Total comprehensive income for the year from discontinued operations	29	9,035	–	–
Total comprehensive income (loss) for the year		**116,127**	**90,418**	**(106,240)**
Attributable to:				
– shareholders of the Bank		121,105	89,830	(98,702)
– non-controlling interests		(4,978)	588	(7,538)
		116,127	**90,418**	**(106,240)**

The accompanying notes on pages 8 to 94 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

(Thousands of Georgian Lari)

	Attributable to shareholders of the Bank							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2008	**31,253**	**468,732**	**(2,018)**	**26,201**	**141,491**	**665,659**	**53,190**	**718,849**
Total comprehensive income (loss)	–	–	–	(6,061)	(92,641)	(98,702)	(7,538)	(106,240)
Depreciation of revaluation reserve, net of tax	–	–	–	(3,377)	3,377	–	–	–
Increase in share capital arising from share-based payments (Note 21)	53	2,523	153	–	–	2,729	–	2,729
Share offering costs adjustment	–	306	–	–	–	306	–	306
Equity component of compound financial instrument	–	9,769	–	–	–	9,769	–	9,769
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	–	(6,064)	(6,064)	(1,479)	(7,543)
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	7,624	–	7,624	(24,730)	(17,106)
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	16	16
Sale of treasury shares	–	1,154	642	–	–	1,796	–	1,796
Purchase of treasury shares	–	(3,705)	(454)	–	–	(4,159)	–	(4,159)
31 December 2009	**31,306**	**478,779**	**(1,677)**	**24,387**	**46,163**	**578,958**	**19,459**	**598,417**
Total comprehensive income	–	–	–	7,942	81,888	89,830	588	90,418
Depreciation of revaluation reserve, net of tax	–	–	–	(2,263)	2,263	–	–	–
Increase in share capital arising from share-based payments (Note 21)	39	8,497	610	–	–	9,146	–	9,146
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	–	–	–	11,973	11,973
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	(3,250)	–	(3,250)	(6,854)	(10,104)
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	3,925	3,925
Sale of treasury shares	–	7,104	448	–	–	7,552	–	7,552
Purchase of treasury shares	–	(17,095)	(891)	–	–	(17,986)	–	(17,986)
31 December 2010	**31,345**	**477,285**	**(1,510)**	**26,816**	**130,314**	**664,250**	**29,091**	**693,341**
Total comprehensive (loss) income	–	–	–	(9,208)	130,253	121,045	(4,918)	116,127
Depreciation of revaluation reserve, net of tax	–	–	–	(3,190)	3,190	–	–	–
Increase in share capital arising from share-based payments (Note 21)	33	2,716	148	–	–	2,897	–	2,897
Increase in share capital from issuance of GDRs (Note 21)	1,500	–	(1,500)	–	–	–	–	–
Dividends to shareholders of the bank (Note 21)	–	–	–	–	(9,169)	(9,169)	–	(9,169)
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	60	–	60	2,453	2,513
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	13,447	13,447
Sale of treasury shares	–	26,777	1,268	–	–	28,045	–	28,045
Purchase of treasury shares	–	(33,046)	(1,552)	–	–	(34,598)	–	(34,598)
31 December 2011	**32,878**	**473,732**	**(3,146)**	**14,478**	**254,588**	**772,530**	**40,073**	**812,603**

The accompanying notes on pages 8 to 94 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

(Thousands of Georgian Lari)

	Notes	*2011*	*2010*	*2009*
Cash flows from operating activities				
Interest received		494,782	412,407	377,043
Interest paid		(244,478)	(194,622)	(205,054)
Fees and commissions received		93,541	74,265	64,599
Fees and commissions paid		(18,204)	(10,845)	(9,574)
Net realized (losses) gains from trading securities		(236)	2,267	587
Net realized gains from investments securities		1,721	789	174
Net realized gains from foreign currencies		45,694	33,651	25,945
Recoveries of previously written off loans to customers and finance lease receivables	9, 10	28,849	42,739	32,579
Insurance premiums received		46,070	46,159	31,319
Insurance claims paid		(26,106)	(32,007)	(16,801)
Other operating income received		35,551	9,483	22,022
Salaries and other employee benefits paid		(100,500)	(93,870)	(88,365)
General and administrative and operating expenses paid		(72,246)	(71,872)	(80,026)
Cash flows from operating activities before changes in operating assets and liabilities		**284,438**	**218,544**	**154,448**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		(179,682)	(45,090)	14,933
Loans to customers		(239,413)	(813,482)	239,093
Finance lease receivables		(49,095)	8,252	12,448
Prepayments and other assets		(63,668)	100	(28,696)
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		(213,068)	190,994	(276,916)
Amounts due to customers		708,242	731,184	81,713
Other liabilities		(32,707)	21,981	455
Net cash flows from operating activities before income tax		**215,047**	**312,483**	**197,478**
Income tax paid		(7,000)	(3,144)	(1,275)
Net cash flows from operating activities		**208,047**	**309,339**	**196,203**
Cash flows (used in) from investing activities				
Acquisition of subsidiaries, net of cash acquired	5	408	(139)	(2,970)
Proceeds from sale of subsidiary		8,747	–	–
Proceeds from sale of investment securities: available-for-sale		20,625	1,518	25,323
Purchase of investment securities: available-for-sale		(138,529)	–	–
Purchase of investment securities: held-to-maturity		–	(28,769)	(226,804)
Proceeds from sale of investments in associates	12	332	–	24
Purchase of investment properties	13	–	–	(495)
Proceeds from sale of investment properties	13	7,889	5,490	755
Proceeds from sale of property and equipment and intangible assets		–	13,312	3,404
Purchase of property and equipment and intangible assets	14, 15	(76,239)	(41,839)	(27,928)
Net cash flows used in investing activities		**(176,767)**	**(50,427)**	**(228,691)**

The accompanying notes on pages 8 to 94 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2011

(Thousands of Georgian Lari)

	Notes	2011	2010	2009
Cash flows (used in) from financing activities				
Dividends paid		(9,169)	–	–
Proceeds from increase in share capital		–	–	306
Purchase of treasury shares		(34,598)	(17,986)	(4,159)
Sale of treasury shares		28,044	7,552	1,796
Proceeds from sale of non-controlling interest in existing subsidiary		2,453	–	–
Purchase of additional interests by non-controlling shareholders		–	11,973	(1,479)
Purchase of additional interests in existing subsidiaries, net of cash acquired		–	(6,854)	(24,730)
Net cash used in financing activities		**(13,270)**	**(5,315)**	**(28,266)**
Effect of exchange rates changes on cash and cash equivalents		(863)	98	2,822
Net increase (decrease) in cash and cash equivalents		**17,147**	**253,695**	**(57,932)**
Cash and cash equivalents, beginning	7	**611,584**	**357,889**	**415,821**
Cash and cash equivalents, ending	7	**628,731**	**611,584**	**357,889**

The accompanying notes on pages 8 to 94 are an integral part of these 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. 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 list of companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

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 31 December 2011 the Bank has 158 operating outlets in all major cities of Georgia (31 December 2010: 142, 31 December 2009: 141). The Bank's registered legal address is 3 Pushkin Street, Tbilisi 0105, Georgia.

As at 31 December 2011, 31 December 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	***31 December 2011, %***	***31 December 2010, %***	***31 December 2009, %***
Bank of New York (Nominees), Limited	91.45%	90.50%	88.86%
East Capital Financial Institutions	4.16%	4.36%	4.36%
Others (less than 4% individually)	4.39%	5.14%	6.78%
Total	**100.00%**	**100.00%**	**100.00%**

As at 31 December 2011, the members of the Supervisory Board and Board of Directors owned 474,246 shares and Global Depositary Receipts ("GDRs") (or 1.44%; 2010: 448,232 shares and GDRs or 1.43%, 2009: 612,962 shares and GDRs or 1.96%) of the Bank. Interests of the members of the Supervisory Board and Management Board were as follows:

Shareholder	***31 December 2011, shares and GDRs held***	***31 December 2010, shares and GDRs held***	***31 December 2009, shares and GDRs held***
Irakli Gilauri	194,379	200,379	216,230
Allan Hirst	60,434	56,311	46,772
Sulkhan Gvalia	58,638	60,638	136,049
Avto Namicheishvili	39,823	34,823	29,999
Kaha Kiknavelidze	26,337	22,509	15,027
David Morrison	20,357	15,351	7,342
Neil Janin	15,729	3,945	–
Giorgi Chiladze	14,000	14,333	6,333
Mikheil Gomarteli	10,634	10,634	9,916
Al Breach	10,279	6,527	–
Archil Gachechiladze	10,000	3,700	–
Vasil Revishvili *	5,908	–	–
Ian Hague	5,112	1,578	–
Hanna Loikkanen	2,616	–	–
Irakli Burdiladze	–	17,504	23,035
Nicholas Enukidze**	–	–	122,259
Total	**474,246**	**448,232**	**612,962**

(Thousands of Georgian Lari)

1. Principal Activities (continued)

As at 31 December 2011, 330,973 unrestricted (readily available for sale) GDRs owned by the members of the Management Board comprised as follows (in 2010: 292,395, 2009: 419,814):

Member of the Management Board	31 December 2011	31 December 2010	31 December 2009
Irakli Gilauri	192,792	198,792	214,643
Sulkhan Gvalia	58,638	13,801	13,999
Avto Namicheishvili	39,001	34,001	29,999
Giorgi Chiladze	14,000	14,333	6,333
Mikheil Gomarteli	10,634	10,634	9,916
Archil Gachechiladze	10,000	3,700	–
Vasil Revishvili	5,908	–	–
Irakli Burdiladze	–	17,134	22,665
Nicholas Enukidze**	–	–	122,259
Total	**330,973**	**292,395**	**419,814**

**** Was appointed as member of the Management Board on 3 May 2011.***

In addition to shares held, the members of the Management Board were awarded or were committed to award 143,500 GDRs in 2011 (2010: 1,290,711, 2009: 463,912 to the Supervisory Board and Management Board). 143,500 GDRs that were awarded to the Management Board in 2011 are subject to two-year vesting. Out of the total of 1,290,711 in 2010, 915,000 shares that were committed to be awarded to the Management Board are subject to four-year vesting and the rest of the awards are subject to three-year vesting.

2. Bases of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank and its Georgian-based subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari in accordance with IFRS, while Subsidiaries established outside of Georgia are in their respective local currencies. These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets and liabilities held for trading, available-for-sale securities, investment properties and revalued property and equipment.

These consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), except per share amounts and unless otherwise indicated.

(Thousands of Georgian Lari)

2. Bases of Preparation (continued)

Subsidiaries

The consolidated financial statements as at 31 December 2011, 31 December 2010 and 31 December 2009 include the following direct and indirect subsidiaries:

	Ownership / voting, %						
Subsidiaries	***31 December 2011***	***31 December 2010***	***31 December 2009***	***Country of incorporation***	***Industry***	***Date of incorporation***	***Date of acquisition***
PJSC Bank Pershyi (formerly known as JSC BG Bank) (i)	19.4%	99.4%	99.4%	Ukraine	Banking	26/01/1994	1/10/2007
Valimed, Unitarnoe Predpreyatie (originally LLC)	(a)	100.0%	100.0%	Belarus	Investment	14/09/2000	3/06/2008
⇒ Proscale M, UE	–	(b)	100.0%	Belarus	Business servicing	15/05/2003	4/12/2009
JSC BG Capital (Georgia) (formerly known as JSC Galt and Taggart Securities)	100.0%	100.0%	100.0%	Georgia	Brokerage and asset management	19/12/1995	28/12/2004
⇒ Benderlock Investments Limited	100.0%	100.0%	100.0%	Cyprus	Investments	12/05/2009	13/10/2009
⇒ BG Tax Advisory, LLC	100.0%	100.0%	100.0%	Georgia	Tax consulting	25/09/2007	–
⇒ BG Commodities (Georgia), LLC	(c)	100.0%	100.0%	Georgia	Commodity Trading	16/04/2009	–
⇒ BG Commodities (Ukraine), LLC	100.0%	100.0%	100.0%	Ukraine	Commodity Trading	24/11/2009	–
⇒ Galt and Taggart Holdings Limited	100.0%	100.0%	100.0%	Cyprus	Investment	3/07/2006	–
⇒ BG Trading Limited	100.0%	100.0%	100.0%	Cyprus	Investment	26/03/2007	–
⇒ JSC Galt and Taggart Securities, SA (Moldova)	–	(d)	95.1%	Moldova	Investment	7/07/2008	–
⇒ BG Capital (Ukraine), LLC	100.0%	100.0%	100.0%	Ukraine	Brokerage	23/10/2006	–
⇒ BG Capital (Belarus), LLC	100.0%	100.0%	100.0%	Belarus	Brokerage	19/02/2008	–
⇒ Brooksby Investments Limited	100.0%	100.0%	100.0%	Cyprus	Investments	4/03/2008	18/06/2008
⇒ JSC Belarusky Narodny Bank	79.99%	79.99%	99.98%	Belarus	Banking	16/04/1992	3/06/2008
⇒ BNB Leasing, LLC	99.9%	99.9%	76.0%	Belarus	Leasing	30/03/2006	3/06/2008
JSC Insurance Company Aldagi BCI	100.0%	100.0%	100.0%	Georgia	Insurance	22/06/2007	–
⇒ Biznes Centri Kazbegze, LLC	100.0%	–	–	Georgia	Various	22/06/2010	1/10/2011
⇒ JSC My Family Clinic	51.0%	100.0%	100.0%	Georgia	Healthcare	3/10/2005	–
⇒ JSC Kutaisi St. Nicholas Surgery Hospital	55.0%	55.0%	55.0%	Georgia	Medical services	3/11/2000	20/05/2008
⇒ Kutaisi Regional Clinical Hospital, LLC	100.0%	100.0%	–	Georgia	Medical services	19/07/2010	1/10/2010
⇒ JSC Zugdidi multi profile Clinical Hospital "Republic"	100.0%	–	–	Georgia	Medical services	11/06/1998	29/11/2011
⇒ JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	66.7%	–	–	Georgia	Medical services	05/05/2003	29/11/2011
⇒ JSC Chkhorotskhu Regional Central Hospital	100.0%	–	–	Georgia	Medical services	30/11/1999	29/11/2011
⇒ Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LLC	66.7%	–	–	Georgia	Medical services	15/10/2004	09/12/2011
⇒ E.K. Pipia Central Hospital of Tsalenjikha, LLC	100.0%	–	–	Georgia	Medical services	01/09/1999	09/12/2011
⇒ Martvili Multi profile Hospital, LLC	100.0%	–	–	Georgia	Medical services	17/03/2000	09/12/2011
⇒ Abasha Outpatient-Polyclinic Union, LLC	100.0%	–	–	Georgia	Medical services	16/03/2000	09/12/2011
⇒ Tskaltubo Regional Hospital, LLC	66.7%	–	–	Georgia	Medical services	29/09/1999	09/12/2011
⇒ Khobi Central Regional Hospital, LLC	100.0%	–	–	Georgia	Medical services	13/07/2000	09/12/2011
Georgian Leasing Company, LLC	100.0%	100.0%	100.0%	Georgia	Leasing	29/10/2001	31/12/2004
⇒ JSC DBL.ge	–	(e)	100.0%	Georgia	Investment	23/04/2007	–
⇒ JSC DBL Capital	–	(e)	100.0%	Georgia	Brokerage	27/04/2007	–
JSC GC Holdings (formerly LLC)	100.0%	100.0%	100.0%	Georgia	Investment	29/10/2007	–
⇒ GC Ukraine, LLC	–	(d)	100.0%	Ukraine	Card processing	30/07/2008	–
⇒ JSC Georgian Card	71.78%	71.78%	55.8%	Georgia	Card processing	17/01/1997	20/10/2004
⇒ Direct Debit Georgia, LLC	100.0%	100.0%	100.0%	Georgia	Electronic payment services	7/03/2006	–
⇒ MetroNet, LLC	100.0%	100.0%	100.0%	Georgia	Communication services	23/04/2007	–
JSC Liberty Consumer	67.08%	65.3%	65.3%	Georgia	Investment	24/05/2006	–
⇒ JSC Teliani Valley	51.14%	52.33%	27.19%	Georgia	Winery	30/06/2000	28/02/2007
⇒ Teliani Trading (Georgia), LLC	100.0%	100.0%	–	Georgia	Distribution	10/01/2006	27/03/2007
⇒ Teliani Trading (Ukraine), LLC	100.0%	100.0%	–	Ukraine	Distribution	03/10/2006	31/12/2007
⇒ Le Caucase, LLC	100.0%	100.0%	–	Georgia	Cognac Production	23/09/2006	20/03/2007
⇒ Kupa, LLC	70.0%	70.0%	–	Georgia	Oak Barrel Production	12/10/2006	20/03/2007
⇒ JSC SB Outdoor & Indoor	–	(f)	100.0%	Georgia	Advertising	9/06/2006	–
⇒ JSC Intertour	97.02%	97.02%	83.6%	Georgia	Travel agency	29/03/1996	25/04/2006
⇒ Intertour Ukraine, LLC	(a)	100.0%	–	Ukraine	Travel agency	19/02/2010	–
⇒ Holiday Travel, LLC	100.0%	100.0%	100.0%	Georgia	Travel agency	11/02/2005	4/09/2006
⇒ JSC Prime Fitness	100.0%	100.0%	100.0%	Georgia	Fitness centre	3/07/2006	–
⇒ Planeta Forte, LLC	51.0%	51.0%	51.0%	Georgia	Newspaper Retail	31/10/1995	1/01/2009

(Thousands of Georgian Lari)

2. Bases of Preparation (continued)

Subsidiaries (continued)

Subsidiaries	Ownership / voting, % 31 December 2011	31 December 2010	31 December 2009	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC SB Real Estate	100.0%	100.0%	61.4%	Georgia	Real estate	27/09/2006	–
⇒ Caucasus Autohause, LLC	100.0%	–	–	Georgia	Real estate	29/03/2011	–
⇒ Tamarashvili 13, LLC	100.0%	–	–	Georgia	Real estate	03/11/2011	–
JSC Galt and Taggart Holdings (Georgia)	100.0%	100.0%	100.0%	Georgia	Investment	4/11/2008	–
⇒ JSC Club 24	–	(g)	100.0%	Georgia	Entertainment	27/11/2007	–
⇒ Metro Service +, LLC	100.0%	100.0%	100.0%	Georgia	Business servicing	10/05/2006	–
⇒ Georgia Financial Investments, LLC	100.0%	100.0%	100.0%	Israel	Information Sharing and Market Research	9/02/2009	–
⇒ Real Estate Brokerage-Presto, LLC	–	(g)	100.0%	Georgia	Real estate brokerage	16/11/2007	–
⇒ JSC SB Immobiliare	–	(g)	100.0%	Georgia	Real estate, Construction	12/03/2008	–
⇒ JSC SB Iberia	–	(h)	100.0%	Georgia	Real estate, Construction	13/12/2007	19/08/2009
⇒ JSC SB Iberia 2	–	(h)	100.0%	Georgia	Real estate, Construction	28/03/2008	19/08/2009
⇒ Bank of Georgia Representative Office UK Limited	100.0%	100.0%	–	United Kingdom	Information Sharing and Market Research	17/08/2010	–
⇒ Professional Basketball Club Dinamo Tbilisi, LLC	100.0%	–	–	Georgia	Investment	01/10/2011	–
JSC United Securities Registrar of Georgia	100.0%	100.0%	100.0%	Georgia	Registrar	29/05/2006	–

(a) No longer Group subsidiary due to sale in 2011
(b) No longer Group subsidiary due to sale in 2010
(c) BG Commodities (Georgia), LLC merged to JSC BG Capital in 2011
(d) No longer Group subsidiary due to liquidation in 2010
(e) Merged to JSC BG Capital (Georgia) in 2010
(f) Merged to JSC Prime Fitness in 2010
(g) Investment in JSC Club 24, Real Estate Brokerage-Presto, LLC and JSC Immobiliare had been contributed to the capital of JSC SB Real Estate (SBRE) by JSC Galt and Taggart Holdings (GTH). These subsidiaries (except for GTH) merged to JSC SB Real Estate in 2010
(h) Merged to JSC SB Immobiliare in 2010
(i) No longer Group subsidiary due to disposal of controlling stake in 2011.

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the year ended 31 December 2011. The principal effects of these changes are as follows:

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment had no impact on the Group's consolidated financial statements.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

IAS 24 "Related party disclosures" (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011. The revised IAS 24 did not have any impact on the Group's consolidated financial statements.

IFRIC 14 "Prepayments of a Minimum Funding Requirement (Amended)"

Effective for annual periods beginning on or after 1 January 2011. IFRIC 14 provides further guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is applied retrospectively to the beginning of the earliest period presented in the first financial statements in which the entity applied the original interpretation.

Entities will need to assess whether prepayments made will now need to be re-assessed for their impact on the recoverability of pension assets. Entities applying the corridor approach to recognise actuarial gains and losses will also need to take account of the interaction between the corridor and the recoverability of the plan assets. IFRIC 14 did not have any impact on the Group's consolidated financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 did not have any impact on the Group's consolidated financial statements.

Improvements to IFRSs

In May 2010 the IASB issued the third 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 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" had impact on the accounting policies, financial position or performance of the Group, as described below.

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of non-controlling interests that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. The amendments to IFRS 3 have no impact on the consolidated financial statements of the Group.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures.
- IAS 34 Interim Financial Reporting: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Disclosure on transfers of financial instruments between levels of the fair value hierarchy is presented in the Note 32, disclosure on contingent liabilities is presented in the Note 22.
- Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 have no impact on the accounting policies, financial position or performance of the Group.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operating and financial activities, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interests (formerly known as minority interest) were measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Subsidiaries (continued)

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the uniting of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

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

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Determination of fair value

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for long positions and ask price for short positions at the close of business on the reporting date, without any deduction for transaction costs.

For all other financial instruments where there is no active market, fair value is determined using valuation techniques. Valuation techniques include using recent arm's length market transactions, which are determined not to be a result of a forced transaction, involuntary liquidation or distress sale, reference to the current market value of similar instrument, discounted cash flow analysis and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from central banks, excluding obligatory reserves with central banks, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts, and the host contract is not itself held for trading or designated at fair value through profit and loss. The embedded derivatives separated from the host are carried at fair value on the trading portfolio with changes in fair value recognised in the consolidated income statement.

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers or in available-for-sale securities, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of each or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers (including promissory notes issued). These are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the consolidated income statement.

Leases

i. Finance – Group as lessor
The Group recognizes finance lease receivables in the consolidated statement of financial position at value equal to the net investment in lease, starting from the date of commencement of the lease term. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the finance lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

ii. Operating – Group as lessee
Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other administrative and operating expenses.

iii. Operating – Group as lessor
The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Renegotiated loans

Renegotiated loans comprise carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.
The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories that the Bank and its Subsidiaries operate.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Taxation (continued)

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia, Ukraine, Belarus and Cyprus also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Investment properties

The Group holds certain properties as investments to earn rental income, generate capital appreciation or both. Investment properties are measured initially at cost, including subsequent costs. Subsequent to initial recognition, Investment properties is stated to fair value. Gains or losses arising from changes in fair values of investment properties are included in the consolidated income statement as "Net gains from revaluation of investment properties".

Property and equipment

Property and equipment, except for buildings, are carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the devalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset, including assets under construction, commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	Up to 100
Furniture and fixtures	10
Computers and office equipment	5
Motor vehicles	5

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Property and equipment (continued)

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Leasehold improvements are amortized over the life of the related leased asset. The assets residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment as defined in IFRS 8 "Operating Segments".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses cannot be reversed in future periods.

Other intangible assets

The Group's other intangible assets include computer software and licenses. Computer software and licenses are recognized at cost and amortized using the straight-line method over its useful life, but not exceeding a period of ten years.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognized based upon insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of income.

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognized as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

Insurance liabilities

General insurance liabilities

General insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain type of general insurance claims, particularly in respect of liability business, environmental and pollution exposures – therefore the ultimate cost of which cannot be known with certainty at the reporting date.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated income statement in order that revenue is recognized over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the consolidated income statement by establishing an unexpired risk provision.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Provisions for the risk of incurring losses on off-balance sheet commitments is estimated regularly based on the past history of actual losses incurred on these commitments.

Retirement and other employee benefit obligations

The Group provides management and employees of the Group, with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group. The Group collects contributions from its employees. When an employee reaches the pension age, aggregated contributions, plus any earnings earned on the employee's behalf are paid to the employee according to the schedule agreed with the employee. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Share-based payment transactions

Employees (including senior executives) of the Group receive share-based remuneration, whereby employees render services as consideration for the equity instruments ('equity settled transactions').

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity settled transactions is recognized together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for the period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions (a condition linked to the price of the Bank's shares) which are treated as vesting irrespective whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense is recognized as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank or its subsidiaries purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission incomes and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Insurance premium income

For non-life insurance business, premiums written are recognized at policy inception and earned on a pro rata basis over the term of the related policy coverage. Estimates of premiums written as at the reporting date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

Insurance claims

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Functional and reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Bank's presentation currency. The Bank's functional currency is US Dollar effective 1 January 2007. Prior to 1 January 2007, Georgian Lari was its functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2011, 31 December 2010 and 31 December 2009 were 1.6703, 1.7728 and 1.6858 Lari to USD 1, 2.1614, 2.3500 and 2.4195 Lari to EUR 1, 2.0905, 2.2272 and 2.1156 Lari to UAH 10 and 2.0004, 5.9093 and 5.8882 Lari to BYR 10,000, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Hyperinflation accounting

With the effect from 1 January 2011, the Belarusian economy has been considered to be hyperinflationary in accordance with the criteria in IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

In applying IAS 29, the Bank's subsidiaries in Belarus, JSC Belarusky Narodny Bank and BNB Leasing, LLC, have used conversion factors derived from the Belarusian consumer price index ("CPI"), published by the State Committee on Statistics of the Republic of Belarus. The CPIs for the six year period and respective conversion factors after Belarus previously ceased to be considered hyperinflationary on 1 January 2006 are as follows:

Year	Index, %	Conversion Factors
2006	106.6	320.8
2007	112.1	286.2
2008	113.3	252.6
2009	110.1	229.4
2010	109.9	208.7
2011	208.7	100.0

All income and expense, profit and loss are recalculated by applying the relevant adjustment factors. Monetary assets and liabilities are not recalculated because they are already expressed in terms of the monetary unit current as at the reporting date. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current as at the reporting date) are recalculated by applying the relevant index. The effect of inflation on the Bank's net non-monetary position is included in the income statement as a gain from hyperinflation

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

IFRS 9 "Financial Instruments"

In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2015. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRS 10 "Consolidated Financial Statements"

IFRS 10 Consolidated Financial Statements provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 "Joint Arrangements"

IFRS 11 Joint Arrangements improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard - joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. IFRS 11 will not have any impact on the Group's consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 Disclosure of Interests in Other Entities issued in May 2011 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard will require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

IFRS 13 "Fair Value Measurement"

IFRS 13 Fair Value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective (continued)

Amendments to IAS 19, "Employee benefits"

The IASB has published amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, which proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. The Group expects that these amendments will have no impact on the Group's financial position.

Improvements to IFRSs

This set of amendments includes changes to six standards and one IFRIC. It is based on the exposure draft issued in August 2009, with an additional change to IFRS 1, "First-time adoption of IFRS", which was exposed as part of the "rate-regulated activities" proposals issued in July 2009. Currently the Group addresses the implications of this set of amendments.

Amendment to IFRS 1, "First time adoption", on fixed dates and hyperinflation

These amendments include two changes to IFRS 1, "First-time adoption of IFRS". The first replaces references to a fixed date of 1 January 2004 with "the date of transition to IFRSs", thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

Amendments to IFRS 7, "Financial instruments: Disclosures" on derecognition

These amendments arise from the IASB's review of off-balance-sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. Earlier application subject to EU endorsement is permitted.

Amendment to IAS 12, "Income taxes" on deferred tax

IAS 12, "Income taxes", currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, "Investment property". This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, "Income taxes – recovery of revalued non-depreciable assets", will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

Amendment to IAS 1, "Financial statement presentation" regarding other comprehensive income

The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially recycled to profit or loss (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income.

IAS 27 (revised 2011), "Separate financial statements"

This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

IAS 28 (revised 2011), "Associates and joint ventures"

This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

(Thousands of Georgian Lari)

4. Significant Accounting Judgements and Estimates

In the process of applying the Group's accounting policies, management uses its judgment and made estimates in determining the amounts recognized in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Segment reporting

In 2011 management of the Group reformed its presentation of business segments without changing principals of segmentation – only presentation format was amended – to make segment information more comprehensive and aligned with the business management practice of the Group. The Group's segmental reporting is based on the following operating segments: Retail Banking (excluding BG Bank and BNB Retail Banking), Corporate Banking (excluding BG Bank and BNB Retail Banking), Wealth Management, Corporate Center, Insurance & Healthcare (formerly named Insurance due to small size of the healthcare business included in Insurance), Affordable Housing represented by the legal entity JSC SB Real Estate (formerly included in Asset Management segment), BG Capital (formerly named Brokerage), BNB & BGB (a.k.a. JSC Belarusky Narodny Bank and JSC BG Bank, each of them was formerly distributed between Retail Banking and Corporate Banking, according to actual size of their respective Retail Banking and Corporate Banking businesses), Liberty Consumer (formerly included in Asset Management) and Other (comprising JSC Galt & Taggart Holding Georgia, formerly included in Corporate Centre. These operating segments have been further classified into Strategic, Synergistic and Non-Core, effective 1 January 2011.

Technical assessment of buildings' useful lives

In January 2011 the Bank finalized technical assessment of all of its buildings. Based on the experts' report estimated useful economic lives have been applied to all buildings starting 1 January 2011, with 100 years being the maximum, based on best estimate considerations of management. Effective 1 January 2011, the straight-line depreciation rates for buildings have been adjusted accordingly. All other factors held equal, result of this re-estimation of useful economic lives translated into decrease of annual depreciation expense by GEL 1,365.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Determination of collateral value

Management monitors market value of collateral on a regular basis. Management uses its experienced judgment or independent opinion to adjust the fair value to reflect current circumstances. The amount and type of collateral required depends on the assessment of credit risk of the counterparty.

Measurement of fair value of investment properties and property and equipment

Fair value of investment properties as well as at the property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using the combination of internal capitalization method (also known as discounted future cash flow method) and sales comparison method.

The estimates described above are subject to change as new transaction data and market evidence becomes available.

Allowance for impairment of loans and receivables and finance lease receivables

The Group regularly reviews its loans and receivables and finance lease receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the 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 group of loans and receivables. The Group uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

(Thousands of Georgian Lari)

4. Significant Accounting Judgements and Estimates (continued)

Contingent liabilities

The Group is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Group considers the likelihood of the loss or the incurrence of a liability as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Group regularly evaluates current information available to determine whether such accruals are required. As at 31 December 2011, the Group did not record any contingent liabilities.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Impairment of long-lived assets

Long-lived assets consist primarily of real estate investments, property, investments in associates, goodwill and intangible assets. The Group evaluates the long-lived assets for impairment annually or when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable.

Impairment of investments

The Group holds investments in several companies, including those that do not trade in an active market. Future adverse changes in market conditions or poor operating results could result in losses that may not be reflected in an investment's current carrying value, thereby requiring an impairment charge in the future. The Group regularly reviews its investments to determine if there have been any indicators that the value may be impaired. These reviews require estimating the outcome of future events and determining whether factors exist that indicate impairment has occurred.

(Thousands of Georgian Lari)

5. Business Combinations

Acquisitions in 2011

Partner Insurance Company, LLC

On 1 December 2011 JSC Insurance Company Aldagi BCI acquired 100% of Partner Insurance Company, LLC, an insurance company operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from Partner Insurance Company, LLC as at the date of acquisition was:

	Fair value recognized on acquisition
Insurance premiums receivable	2,981
Reinsurance assets	1,646
Property and equipment	507
Other assets	187
	5,321
Insurance contracts liabilities	3,304
Other insurance liabilities	2,118
Other liabilities	276
	5,698
Total identifiable net assets	**(377)**
Share in fair value of net assets acquired (100%)	(377)
Goodwill arising on acquisition	377
Consideration given	**–**

If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

Since the acquisition date, the Group recorded GEL 295 and GEL 164 of revenue and profit, respectively. If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill was the positive synergy brought into the Group's operations.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

Because Partner Insurance Company, LLC was acquired close to the year end, the Group had limited time to review, analyze and perform valuation of the respective net assets as well as amount of goodwill. Therefore the net assets as well as the amount of goodwill presented above are estimated provisionally as at the reporting date. The Group continues thorough full examination of these net assets and if identified proper adjustments will be made to the net assets and amount of the goodwill during the twelve month period from the acquisition date, as allowed by "Business Combinations" (IFRS 3). However, as at the reporting date management believes that materially all factors of the business combination have been captured and the estimates are materially correct.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2011 (continued)

Block Georgia Group of Companies

On 30 November 2011 JSC My Family Clinic acquired 100% of Block Georgia Group of Companies, a group of healthcare services companies operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and negative goodwill arising from business combination as at the date of acquisition was:

	Fair value recognized on acquisition
Cash and cash equivalents	408
Accounts receivable [1]	3,186
Property and equipment	37,873
Prepayments	15
Other assets	1,443
	42,925
Accounts payable	13,464
Current income tax liabilities	243
Deferred income tax liabilities	1,167
Other liabilities	8,151
	23,025
Total identifiable net assets	**19,900**
Share in fair value of net assets acquired	14,396
Negative goodwill arising on acquisition [2]	(955)
Consideration given [3]	**13,441**

[1] The fair value of the accounts receivables amounts to GEL 3,186. The gross amount of receivables is GEL 3,191. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

[2] Prior to acquisition Block Georgia Group of Companies encountered certain financial difficulties in respect with funding construction of hospitals. These difficulties resulted in lower acquisition cost which transformed into negative goodwill at acquisition - recognised in other non-operating income (Note 28).

[3] Consideration comprised of deferred cash payment of GEL 5,857. JSC My Family Clinic issued 2,713,000 ordinary shares as part of the consideration given. As a result, JSC Insurance Company Aldagi BCI's equity stake in JSC My Family Clinic was diluted to 51%.

The net cash outflow on acquisition was as follows:

	2011
Cash paid	–
Cash acquired with the subsidiary	408
Net cash inflow	**408**

The Group decided to increase their presence and investment in healthcare sector, hospital assets acquired together with existing hospitals covers two big regions of Georgia - Imereti and Samegrelo. Management considers that the deal will have positive impact on the value of the Group.

Since the acquisition date, the Group recorded GEL 2,588 and GEL 354 of revenue and profit, respectively. If the combination had taken place at the beginning of the year, the Group would have recorded GEL 31,395 and GEL 1,892 of revenue and profit respectively.

The total amount of negative goodwill is expected to be taxable upon disposal of the subsidiary.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2011 (continued)

Because Block Georgia Group of Companies was acquired close to the year end, the Group had limited time to review, analyze and perform valuation of the respective net assets as well as amount of goodwill. Therefore the net assets as well as the amount of goodwill presented above are estimated provisionally as at the reporting date. The Group continues thorough full examination of these net assets and if identified proper adjustments will be made to the net assets and amount of the goodwill during the twelve month period from the acquisition date, as allowed by "Business Combinations" (IFRS 3). However, as at the reporting date management believes that materially all factors of the business combination have been captured and the estimates are materially correct.

Acquisitions in 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 at 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	8,038
Goodwill and other intangible assets	151
Deferred income tax assets	78
Other assets	6,751
	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 net assets acquired (52.33%)	4,308
Fair value of the previously held equity interests (27.19%)	(3,451)
Goodwill arising on acquisition	3,292
Consideration given [1]	**4,149**

The net cash inflow on acquisition was as follows:

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

[1] Consideration comprised of the Group's investment in available-for-sale investment securities in the form of common shares of JSC Nikora.

At the acquisition date, non-controlling interests comprised GEL 3,925 and was measured at the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

Since the acquisition date, the Group recorded GEL 8,293, GEL 355 and GEL 115 of revenue, profit and other comprehensive income, respectively. If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2010 (continued)

Kutaisi Regional Clinical Hospital, LLC

On 1 October 2010 JSC My Family Clinic acquired 100% of Kutaisi Regional Clinical Hospital, LLC, a medical services provider company operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from Kutaisi Regional Clinical Hospital, LLC as at the date of acquisition was:

	Fair value recognized on acquisition	*Carrying value*
Property and equipment	658	481
	658	**481**
Accounts payable	17	17
Deferred income tax liabilities	27	27
	44	**44**
Fair value of net assets	**614**	**437**
Share in fair value of net assets acquired (100%)	614	
Negative goodwill arising on acquisition	(179)	
Consideration given	**435**	

The net cash outflow on acquisition was as follows:

	2010
Cash paid	(435)
Cash acquired with the subsidiary	–
Net cash outflow	**(435)**

If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

Since the acquisition date, the Group recorded GEL 629 and GEL 98 of revenue and profit, respectively. If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

The total amount of negative goodwill is expected to be taxable upon disposal of the subsidiary.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 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 of Planeta Forte, LLC as at the date of acquisition were estimated at:

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

The net cash outflow on acquisition was as follows:

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

If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

At the acquisition date, non-controlling interest comprised GEL 16 and was measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2009 (continued)

JSC SB Iberia

On 19 August 2009 JSC SB Immobiliare, a fully owned subsidiary of the Bank acquired 100% of JSC "SB Iberia", a real estate developing company operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities of JSC SB Iberia as at the date of acquisition were estimated at:

	Fair value recognized on acquisition	*Carrying value*
Cash and cash equivalents	11	11
Investment property	4,547	4,547
Deferred income tax assets	826	826
Prepayments	102	102
Other assets	7	7
	5,493	**5,493**
Amounts due to credit institutions	6,900	6,900
Accounts payable (trade & service)	2,156	2,156
Deferred income tax liabilities	12	12
	9,068	**9,068**
Fair value of net assets	**(3,575)**	**(3,575)**
Share in fair value of net assets acquired (100%)	(3,575)	
Goodwill arising on acquisition	3,907	
Consideration given	**332**	

The net cash outflow on acquisition was as follows:

	2009
Cash paid	(332)
Cash acquired with the subsidiary	11
Net cash outflow	**(321)**

If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2009 (continued)

JSC SB Iberia 2

On 19 August 2009 JSC SB Immobiliare, a fully owned subsidiary of the Bank acquired 100% of JSC "SB Iberia 2", a real estate developing company operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities of JSC SB Iberia 2 as at the date of acquisition were estimated at:

	Fair value recognized on acquisition	***Carrying value***
Cash and cash equivalents	14	14
Investment property	8,083	8,083
Deferred income tax assets	778	778
Prepayments	6	6
Other assets	64	64
	8,945	**8,945**
Amounts due to credit institutions	5,913	5,913
Deferred income tax liabilities	8	8
	5,921	**5,921**
Fair value of net assets	**3,024**	**3,024**
Share in fair value of net assets acquired (100%)	3,024	
Goodwill arising on acquisition	744	
Consideration given	**3,768**	

The net cash outflow on acquisition was as follows:

	2009
Cash paid	(2,286)
Cash acquired with the subsidiary	14
Net cash outflow	**(2,272)**

If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

(Thousands of Georgian Lari)

6. Segment Information

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

Retail Banking (excluding Retail Banking of BG Bank and BNB) - Principally providing consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services, and handling customers' deposits for both, individuals as well as legal entities, encompassing mass affluent segment, retail mass markets, small & medium enterprises and micro businesses.

Corporate Banking (excluding Corporate Banking of BG Bank and BNB) - Principally providing loans and other credit facilities to large VIP as well as other legal entities, larger than SME and Micro, finance lease facilities provided by Georgian Leasing Company LLC, as well as providing funds transfers and settlement services, trade finance services and documentary operations support, handling saving and term deposits for corporate and institutional customers.

Wealth Management - Principally providing private banking services to resident as well as non-resident wealthy individuals as well as their direct family members by ensuring individually distinguished approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or holding their savings and term deposits; Wealth Management involves providing wealth and asset management services to same individuals through different investment opportunities and specifically designed investment products.

Corporate Centre - Principally providing back office services to all operating segments of the Bank as well as holding all principal investments in subsidiaries.

Insurance & Healthcare - Principally providing wide-scale non-life insurance as well as integrated healthcare services to corporate clients and insured individuals.

Affordable Housing (formerly included in Asset Management) - Comprising JSC SB Real Estate, principally holding investment property repossessed by the Bank from defaulted borrowers, managing those property, developing and selling affordable residential apartments.

BG Capital (formerly named Brokerage) - Principally providing brokerage, custody and corporate finance services, mostly to wealthy or mass affluent individuals as well as to corporate customers.

BNB & BGB - Comprising JSC Belarusky Narodny Bank and JSC BG Bank (disposed of in February 2011), principally providing retail and corporate banking services in Belarus and Ukraine.

Liberty Consumer (formerly included in Asset Management) - Principally holding private equity investments in several non-core business enterprises, such as winery, fitness centre, travel agencies, outdoor or indoor advertising company, regional car dealership, hotels and restaurants management chain and other smaller investments, all designated for disposal.

Other (formerly included in Corporate Centre) - Comprising JSC Galt & Taggart Holding Georgia, a shell company, principally holding investments in subsidiaries of the Bank on behalf of the Bank.

For purposes of further consolidation of these operating segments and for more comprehensive presentation in these consolidated financial statements Management has further grouped them into large segments, classified as: Strategic, Synergistic and Non-Core.

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 in the same manner as 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.

Since 2010 the Group changed its estimates in respect of the allocation of indirect revenues and indirect expenses in JSC Bank of Georgia (stand-alone) among corporate banking, retail banking and wealth management. These changes in allocation estimates had no impact on subsidiaries. Instead, it only resulted in re-allocation of certain indirect revenues and indirect expenses in JSC Bank of Georgia stand-alone segment reporting, with no consequence on totals of segments across each line.

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2011:

	Strategic				*Synergistic*			*Non-Core*				
	Corporate banking	***Retail banking***	***Wealth management***	***Corporate center***	***Insurance & Healthcare***	***Affordable Housing***	***BG Capital***	***BNB & BGB****	***Liberty Consumer***	***Other***	***Inter – company eliminations***	***Total***
Revenue												
External operating income:												
Net interest income (expense)	72,823	141,476	5,879	–	1,562	61	234	13,430	(1,164)	–	–	234,301
Net fees and commission income	20,346	49,769	652	–	–	–	2,542	2,028	–	–	–	75,337
Net gains (losses) from foreign currencies	29,018	12,213	706	–	(779)	(51)	(136)	35,763	(293)	–	–	76,441
Other external (expenses) revenues	6,609	5,990	168	–	29,757	1,364	196	(15)	11,071	–	–	55,140
Operating income(expense) from other segments	6,644	1,597	(48)	–	(67)	(567)	92	(246)	(38)	(199)	(7,168)	–
Revenue	**135,440**	**211,045**	**7,357**	**–**	**30,473**	**807**	**2,928**	**50,960**	**9,576**	**(199)**	**(7,168)**	**441,219**
Impairment charge (reversal) on interest earning assets	25,576	(3,107)	(51)	–	–	–	–	1,460	–	–	(345)	23,533
Results												
Profit (loss) before income tax expense from continuing operations	**60,106**	**110,366**	**3,616**	**(23,394)**	**7,263**	**(1,213)**	**(1,864)**	**19,563**	**(2,357)**	**(377)**	**345**	**172,054**
Income tax expense												(21,125)
Net loss from discontinued operations												(15,219)
Profit for the year												**135,710**
Assets and liabilities												
Segment assets	2,215,730	2,164,177	37,646	3,183	155,660	68,268	18,034	93,289	43,181	536	(157,782)	4,641,922
Unallocated assets												23,339
Total assets												**4,665,261**
Segment liabilities	1,996,036	1,268,023	451,542	–	112,573	32,242	46,704	54,875	11,022	7	(157,782)	3,815,242
Unallocated liabilities												37,416
Total liabilities												**3,852,658**
Other segment information												
Property, plant and equipment	12,992	34,638	663	–	14,899	11,233	89	1,418	831	–	–	76,763
Intangible assets	1,524	4,304	77	–	275	15	12	168	68	–	–	6,443
Capital expenditures	**14,516**	**38,942**	**740**	**–**	**15,174**	**11,248**	**101**	**1,586**	**899**	**–**	**–**	**83,206**
Depreciation	5,192	14,427	260	–	887	71	120	1,642	994	–	–	23,593
Amortization	800	2,593	39	–	48	–	17	161	3	–	–	3,661
Impairment	–	–	–	23,394	–	–	–	–	–	–	–	23,394
Investments in associates	–	–	–	–	–	–	–	–	3,014	–	–	3,014
Share of loss of associates	–	–	–	–	–	–	–	–	(487)	–	–	(487)

**** JSC Belarusky Narodny Bank (BNB) and JSC BG BANK (BGB).***

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2010:

	Strategic				*Synergistic*			*Non-Core*				
	Corporate banking	*Retail banking*	*Wealth management*	*Corporate center*	*Insurance & Healthcare*	*Affordable Housing*	*BG Capital*	*BNB & BGB**	*Liberty Consumer*	*Other*	*Inter – company eliminations*	*Total*
Revenue												
External operating income:												
Net interest income (expense)	74,756	116,378	3,053	–	700	27	270	21,684	(524)	–	–	216,344
Net fees and commission income	16,604	42,141	499	–	86	–	1,164	2,926	–	–	–	63,420
Net gains (losses) from foreign currencies	21,387	9,211	642	–	267	30	52	2,252	(92)	–	–	33,749
Other external (expenses) revenues	(2,130)	1,184	(53)	–	19,465	2,257	3,009	749	8,639	–	–	33,120
Operating income(expense) from other segments	12,484	527	–	–	380	(1,371)	(231)	(426)	(536)	154	(10,981)	–
Revenue	**123,101**	**169,441**	**4,141**	**–**	**20,898**	**943**	**4,264**	**27,185**	**7,487**	**154**	**(10,981)**	**346,633**
Impairment charge (reversal) on interest earning assets	12,801	29,073	(2,632)	–	–	–	–	4,096	–	–	773	44,111
Results												
Profit (loss) before income tax expense	**68,740**	**39,952**	**2,028**	**–**	**5,568**	**(3,747)**	**(4,838)**	**(3,605)**	**(4,964)**	**82**	**(773)**	**98,443**
Income tax expense												(15,776)
Profit for the year												**82,667**
Assets and liabilities												
Segment assets	1,745,431	1,746,185	43,083	28,265	83,380	28,448	20,013	342,353	44,765	–	(97,426)	3,984,497
Unallocated assets												20,425
Total assets												**4,004,922**
Segment liabilities	1,552,368	1,176,859	261,638	–	61,542	3,193	41,435	264,069	12,751	–	(97,426)	3,276,429
Unallocated liabilities												35,152
Total liabilities												**3,311,581**
Other segment information												
Property, plant and equipment	6,157	19,006	482	–	3,290	34	144	6,743	578	–	–	36,434
Intangible assets	1,347	3,540	85	–	39	6	3	355	3,473	–	–	8,848
Capital expenditures	**7,504**	**22,546**	**567**	**–**	**3,329**	**40**	**147**	**7,098**	**4,051**	**–**	**–**	**45,282**
Depreciation	4,980	16,107	402	–	634	125	163	1,190	909	–	–	24,510
Amortization	629	2,401	50	–	29	–	29	305	10	–	–	3,453
Impairment	318	108	9	–	–	–	–	–	–	–	–	435
Investments in associates	–	–	–	–	–	–	–	–	5,632	–	–	5,632
Share of loss of associates	–	–	–	–	–	–	–	–	255	–	–	255

**** JSC Belarusky Narodny Bank (BNB) and JSC BG BANK (BGB).***

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2009:

	Strategic				*Synergistic*			*Non-Core*				
	Corporate banking	***Retail banking***	***Wealth management***	***Corporate center***	***Insurance & Healthcare***	***Affordable Housing***	***BG Capital***	***BNB & BGB****	***Liberty Consumer***	***Other***	***Inter – company eliminations***	***Total***
Revenue												
External operating income:												
Net interest income (expense)	48,844	117,679	2,340	–	(36)	(188)	333	21,612	(43)	–	–	190,541
Net fees and commission income	13,095	34,895	342	–	1,006	–	2,305	3,382	–	–	–	55,025
Net gains (losses) from foreign currencies	13,886	9,706	718	–	61	(413)	808	4,307	10	–	–	29,083
Other external (expenses) revenues	8,599	125	337	–	17,346	(12,869)	3,336	1,120	2,248	–	–	20,242
Operating income (expense) from other segments	11,327	138	–	–	947	(1,214)	370	(1,261)	(2,620)	(403)	(7,284)	–
Revenue	**95,751**	**162,543**	**3,737**	**–**	**19,324**	**(14,684)**	**7,152**	**29,160**	**(405)**	**(403)**	**(7,284)**	**294,891**
Impairment charge (reversal) on interest earning assets	12,667	69,598	3,626	–	–	–	–	41,277	–	–	(1,427)	125,741
Results												
Profit (loss) before income tax benefit	**36,847**	**5,229**	**(4,677)**	**(68,550)**	**2,969**	**(26,918)**	**(1,788)**	**(43,527)**	**(6,914)**	**(4)**	**1,427**	**(105,906)**
Income tax benefit												6,998
Loss for the year												**(98,908)**
Assets and liabilities												
Segment assets	1,184,586	1,313,041	49,467	28,265	70,618	49,510	14,446	273,670	31,178	15	(124,851)	2,889,945
Unallocated assets												23,484
Total assets												**2,913,429**
Segment liabilities	995,144	939,268	163,067	–	54,034	36,130	36,719	187,570	2,696	–	(124,851)	2,289,777
Unallocated liabilities												25,235
Total liabilities												**2,315,012**
Other segment information												
Property, plant and equipment	10,017	8,681	500	–	960	10	312	2,713	234	–	–	23,427
Intangible assets	2,349	1,406	82	–	22	4,650	49	587	371	–	–	9,516
Capital expenditures, of which:	**12,366**	**10,087**	**582**	**–**	**982**	**4,660**	**361**	**3,300**	**605**	**–**	**–**	**32,943**
Depreciation	10,469	9,028	520	–	555	289	63	1,211	381	–	–	22,516
Amortization	1,619	1,000	58	–	19	–	20	194	2	–	–	2,912
Impairment	–	–	–	68,381	–	4,650	–	3,200	41	–	–	76,272
Investments in associates	–	–	–	–	–	–	–	–	10,323	–	–	10,323
Share of loss of associates	–	–	–	–	–	–	–	–	(2,649)	–	–	(2,649)

**** JSC Belarusky Narodny Bank (BNB) and JSC BG BANK (BGB).***

(Thousands of Georgian Lari)

6. Segment Information (continued)

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 at and for the year ended 31 December 2011:

	Georgia 31 December 2011	*Ukraine and Cyprus 31 December 2011*	*Belarus 31 December 2011*	*Total 31 December 2011*
External income				
Net interest income	220,871	452	12,978	234,301
Net fee and commission income	73,401	49	1,887	75,337
Net foreign currency gains (losses)	40,813	(24)	35,652	76,441
Other non-interest (loss) income	55,155	6	(21)	55,140
Total external income	**390,240**	**483**	**50,496**	**441,219**
Total assets	**4,571,776**	**–**	**93,485**	**4,665,261**
Capital expenditures	**81,620**	**–**	**1,586**	**83,206**

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 at and for the year ended 31 December 2010:

	Georgia 31 December 2010	*Ukraine and Cyprus 31 December 2010*	*Belarus 31 December 2010*	*Total 31 December 2010*
External income				
Net interest income	196,356	9,800	10,188	216,344
Net fee and commission income	58,629	3,133	1,658	63,420
Net foreign currency gains	29,438	2,817	1,494	33,749
Other non-interest income	29,842	2,020	1,258	33,120
Total external income	**314,265**	**17,770**	**14,598**	**346,633**
Total assets	**3,664,312**	**235,582**	**105,028**	**4,004,922**
Capital expenditures	**38,115**	**5,420**	**1,747**	**45,282**

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 at and for the year ended 31 December 2009:

	Georgia 31 December 2009	*Ukraine and Cyprus 31 December 2009*	*Belarus 31 December 2009*	*Total 31 December 2009*
External income				
Net interest income	169,167	16,417	4,957	190,541
Net fee and commission income	50,132	3,404	1,489	55,025
Net foreign currency gains	23,977	3,480	1,626	29,083
Other non-interest income	14,722	5,094	426	20,242
Total external income	**257,998**	**28,395**	**8,498**	**294,891**
Total assets	**2,600,684**	**232,730**	**80,015**	**2,913,429**
Capital expenditures	**29,338**	**3,214**	**391**	**32,943**

Amounts of non-current assets, other than financial instruments, concentrated in foreign locations (outside Georgia) are immaterial compared to total assets of the Group.

(Thousands of Georgian Lari)

7. Cash and Cash Equivalents

	2011	*2010*	*2009*
Cash on hand	163,001	161,749	154,861
Current accounts with central banks, excluding obligatory reserves	54,830	58,958	44,101
Current accounts with other credit institutions	304,910	161,290	34,944
Time deposits with credit institutions up to 90 days	105,990	229,587	123,983
Cash and cash equivalents	**628,731**	**611,584**	**357,889**

As at 31 December 2011 GEL 304,231 (2010: GEL 367,956, 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 5.1% interest per annum on these deposits (2010: 1.74%, 2009: 0.17%).

8. Amounts Due from Credit Institutions

	2011	*2010*	*2009*
Obligatory reserves with central banks	270,335	90,378	41,791
Time deposits with effective maturity of more than 90 days	14,318	20,809	18,599
Inter-bank loan receivables	4,877	5,282	4,230
Amounts due from credit institutions	**289,530**	**116,469**	**64,620**

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 1% annual interest on obligatory reserves with NBG for the years ended 31 December 2011 and 31 December 2010. The Group earned up to 2% annual interest on obligatory reserve with NBG in 2009.

As at 31 December 2011 GEL 277 (2010: GEL 14,538, 2009: GEL 10,940) was placed on current accounts and inter-bank time deposits with one (2010: three, 2009: seven) internationally recognised OECD banks. Those amounts were pledged to the counterparty bank as security for open commitments.

As at 31 December 2011 inter-bank loan receivables include GEL 4,176 (2010: GEL 4,436, 2009: GEL 4,215) placed with non-OECD banks of Azerbaijan.

9. Loans to Customers

	2011	*2010*	*2009*
Commercial loans	1,363,058	1,424,550	939,814
Consumer loans	516,733	383,615	332,537
Residential mortgage loans	390,997	409,786	387,415
Micro and SME loans	318,566	238,462	99,981
Gold – pawn loans	78,785	66,749	62,829
Others	–	4,071	5,241
Loans to customers, gross	**2,668,139**	**2,527,233**	**1,827,817**
Less – Allowance for loan impairment	(114,697)	(175,536)	(166,486)
Loans to customers, net	**2,553,442**	**2,351,697**	**1,661,331**

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Allowance for loan impairment

Movements of the allowance for impairment of loans to customers by class are as follows:

	Commercial loans 2011	*Consumer loans 2011*	*Residential mortgage loans 2011*	*Micro loans 2011*	*Others 2011*	*Total 2011*
At 1 January	**114,499**	**31,873**	**22,424**	**5,951**	**789**	**175,536**
Charge (reversal)	24,017	(1,086)	1,033	(721)	(27)	23,216
Recoveries	2,900	15,158	7,404	3,387	–	28,849
Write-offs	(23,752)	(15,459)	(7,881)	(2,639)	–	(49,731)
Disposal of subsidiary	(43,593)	–	(11,714)	(65)	(803)	(56,175)
Interest accrued on impaired loans	(3,997)	(1,390)	(1,569)	(349)	–	(7,305)
Currency translation difference	32	(99)	330	3	41	307
At 31 December	**70,106**	**28,997**	**10,027**	**5,567**	**–**	**114,697**
Individual impairment	61,852	7,304	5,173	1,841	–	76,170
Collective impairment	8,254	21,693	4,854	3,726	–	38,527
	70,106	**28,997**	**10,027**	**5,567**	**–**	**114,697**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**206,030**	**15,195**	**21,709**	**5,492**	**–**	**248,426**

	Commercial loans 2010	*Consumer loans 2010*	*Residential mortgage loans 2010*	*Micro loans 2010*	*Others 2010*	*Total 2010*
At 1 January	**82,042**	**54,989**	**23,490**	**3,788**	**2,177**	**166,486**
Charge	23,932	7,571	18,440	1,474	(1,531)	49,886
Recoveries	21,090	15,208	3,249	3,150	42	42,739
Write-offs	(13,074)	(42,798)	(19,441)	(2,138)	–	(77,451)
Interest accrued on impaired loans	(1,392)	(3,306)	(3,681)	(360)	–	(8,739)
Currency translation difference	1,901	209	367	37	101	2,615
At 31 December	**114,499**	**31,873**	**22,424**	**5,951**	**789**	**175,536**
Individual impairment	68,145	13,148	16,606	2,433	315	100,647
Collective impairment	46,354	18,725	5,818	3,518	474	74,889
	114,499	**31,873**	**22,424**	**5,951**	**789**	**175,536**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**192,778**	**21,996**	**51,585**	**9,051**	**973**	**276,383**

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Allowance for loan impairment (continued)

	Commercial loans 2009	*Consumer loans 2009*	*Residential mortgage loans 2009*	*Micro loans 2009*	*Gold-pawn loans 2009*	*Others 2009*	*Total 2009*
At 1 January	**45,755**	**42,153**	**7,969**	**4,921**	**–**	**5,803**	**106,601**
Charge	44,357	52,839	19,023	5,981	8	(3,326)	118,882
Recoveries	17,839	8,469	2,170	2,016	–	11	30,505
Write-offs	(24,295)	(43,073)	(5,209)	(8,207)	(8)	(1)	(80,793)
Interest accrued on impaired loans	(1,088)	(5,216)	(396)	(891)	–	–	(7,591)
Currency translation difference	(526)	(183)	(67)	(32)	–	(310)	(1,118)
At 31 December	**82,042**	**54,989**	**23,490**	**3,788**	**–**	**2,177**	**166,486**
Individual impairment	75,684	42,824	20,479	1,907	–	–	140,894
Collective impairment	6,358	12,165	3,011	1,881	–	2,177	25,592
	82,042	**54,989**	**23,490**	**3,788**	**–**	**2,177**	**166,486**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**351,835**	**67,345**	**84,448**	**6,731**	**–**	**2,037**	**512,396**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized as at 31 December 2011 comprised GEL 14,914 (2010: GEL 18,640, 2009: GEL 17,055).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory trade receivables and third party corporate guarantees.
- For retail lending, mortgages over residential properties, cars, gold and jewellery and third party corporate guarantees.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Concentration of loans to customers

As at 31 December 2011 concentration of loans granted by the Group to ten largest third party borrowers comprised GEL 402,989 accounting for 15% of gross loan portfolio of the Group (2010: GEL 383,971 and 15% respectively, 2009: GEL 206,981 and 11% respectively). An allowance of GEL 7,033 (2010: GEL 3,837, 2009: GEL 9,891) was established against these loans.

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Concentration of loans to customers (continued)

As at 31 December 2011, 31 December 2010 and 31 December 2009 loans are principally issued within Georgia, and their distribution by industry sector is as follows:

	2011	*2010*	*2009*
Individuals	1,132,740	1,006,046	862,365
Trade and services	972,290	858,878	578,623
Construction and development	228,412	274,623	150,676
Mining	122,771	137,583	62,622
Transport and communication	83,289	77,792	81,532
Energy	65,360	62,424	11,667
Agriculture	8,709	18,089	13,730
Others	54,568	91,798	66,602
Loans to customers, gross	**2,668,139**	**2,527,233**	**1,827,817**
Less – allowance for loan impairment	(114,697)	(175,536)	(166,486)
Loans to customers, net	**2,553,442**	**2,351,697**	**1,661,331**

Loans have been extended to the following types of customers:

	2011	*2010*	*2009*
Private companies	1,492,124	1,488,577	934,494
Individuals	1,132,740	1,006,046	862,365
State-owned entities	43,275	32,610	30,958
Loans to customers, gross	**2,668,139**	**2,527,233**	**1,827,817**
Less – allowance for loan impairment	(114,697)	(175,536)	(166,486)
Loans to customers, net	**2,553,442**	**2,351,697**	**1,661,331**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the years ended 31 December 2011, 31 December 2010 and 31 December 2009:

	2011			*2010*			*2009*		
	Individual impairment	***Collective impairment***	***Total***	***Individual impairment***	***Collective impairment***	***Total***	***Individual impairment***	***Collective impairment***	***Total***
	2011	***2011***	***2011***	***2010***	***2010***	***2010***	***2009***	***2009***	***2009***
At 1 January	**100,647**	**74,889**	**175,536**	**140,894**	**25,592**	**166,486**	**72,614**	**33,987**	**106,601**
Charge (reversal) for the year	20,135	3,081	23,216	(8,950)	58,836	49,886	105,477	13,405	118,882
Recoveries	16,563	12,286	28,849	25,247	17,492	42,739	17,237	13,268	30,505
Write-offs	(39,342)	(10,389)	(49,731)	(54,534)	(22,917)	(77,451)	(49,587)	(31,206)	(80,793)
Disposal of subsidiary	(16,110)	(40,065)	(56,175)	–	–	–	–	–	–
Interest accrued on impairment loans to customers	(6,094)	(1,211)	(7,305)	(7,216)	(1,523)	(8,739)	(3,801)	(3,790)	(7,591)
Currency translation differences	371	(64)	307	5,206	(2,591)	2,615	(1,046)	(72)	(1,118)
At 31 December	**76,170**	**38,527**	**114,697**	**100,647**	**74,889**	**175,536**	**140,894**	**25,592**	**166,486**

(Thousands of Georgian Lari)

10. Finance Lease Receivables

	2011	*2010*	*2009*
Minimum lease payments receivables	82,682	18,521	27,816
Less – Unearned finance lease income	(19,323)	(3,514)	(3,776)
	63,359	**15,007**	**24,040**
Less – Allowance for impairment	(440)	(588)	(7,144)
Finance lease receivables, net	**62,919**	**14,419**	**16,896**

The difference between the minimum lease payments to be received in the future and the finance lease receivables represents unearned finance income.

As at 31 December 2011, concentration of investments in five largest leases comprised GEL 52,573 or 83% of total finance lease receivables (2010: GEL 3,541 or 24%, 2009: GEL 16,013 or 67%) and finance income received from them for the year ended 31 December 2011 comprised GEL 2,986 or 52% of total finance income from lease (2010: GEL 479 or 12%, 2009: GEL 1,567 or 27%).

Future minimum lease payments to be received after 31 December 2011, 31 December 2010 and 31 December 2009 are as follows:

	2011	*2010*	*2009*
Within 1 year	18,485	10,266	19,693
From 1 to 5 years	43,543	8,255	8,123
More than 5 years	20,654	–	–
Minimum lease payment receivables	**82,682**	**18,521**	**27,816**

Minimum lease payments to be received after 31 December 2011, 31 December 2010 and 31 December 2009 are denominated in the following currencies:

	2011	*2010*	*2009*
US Dollars	74,836	5,840	9,554
Euros	4,984	7,993	5,851
Belarusian Rubles	2,571	4,688	1,035
Ukrainian Hryvnias	291	–	11,376
Minimum lease payment receivables	**82,682**	**18,521**	**27,816**

The equipment the Group leases out at 31 December 2011, 31 December 2010 and 31 December 2009 can be segregated into the following categories:

	2011		*2010*		*2009*	
	Amount	*Number of projects*	*Amount*	*Number of projects*	*Amount*	*Number of projects*
Air and land transport	68,570	93	10,022	141	7,559	116
Machinery & equipment	8,847	133	4,356	38	3,885	31
Construction equipment	5,265	54	4,143	30	16,372	21
Minimum lease payment receivables	**82,682**	**280**	**18,521**	**209**	**27,816**	**168**

(Thousands of Georgian Lari)

10. Finance Lease Receivables (continued)

Movements of the allowance for impairment of finance lease receivables are as follows:

	Finance lease receivables 2011	*Finance lease receivables 2010*	*Finance lease receivables 2009*
At 1 January	**588**	**7,144**	**2,163**
(Reversal) Charge	317	(5,775)	6,859
Recoveries	–	–	2,074
Amounts written-off	(193)	(1,210)	(3,689)
Currency translation difference	(272)	429	(263)
At 31 December	**440**	**588**	**7,144**
Individual impairment	93	232	6,916
Collective impairment	347	356	228
	440	**588**	**7,144**
Gross amount of lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**155**	**–**	**13,703**

11. Investment Securities

Available-for-sale securities comprise:

	2011	*2010*	*2009*
Certificates of deposit of central banks	199,142	104,969	–
Ministry of Finance treasury bonds	120,255	52,120	–
Ministry of Finance treasury bills	88,657	128,539	4,044
Corporate shares	11,501	11,294	13,418
Corporate bonds	21	–	2,946
	419,576	**296,922**	**20,408**
Less – Allowance for impairment (Note 17)	–	(1,982)	(818)
Available-for-sale securities	**419,576**	**294,940**	**19,590**

Corporate shares as at 31 December 2011 are primarily comprised of the remaining 19.4% investment in PJSC Bank Pershyi (formerly known as JSC BG Bank) of GEL 3,837 (2010, 2009: nil), investments in a chain of pharmacy stores of GEL 2,776 (2010: GEL 4,282, 2009: GEL 4,413), a Georgian chain store retailer of GEL 3,146 (2010: GEL 3,146, 2009: GEL 2,677) and a real estate company of GEL 1,145 (2010: GEL 1,145, 2009: nil).

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

	2011		*2010*		*2009*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Certificates of deposit of central banks	8.04	1	9.98	1	–	–
Ministry of Finance treasury bonds	12.76	1-2	15.32	1-2	–	–
Ministry of Finance treasury bills	9.69	1	10.03	1	9.50	1-2
Corporate bonds	15.00	1	–	–	19.76	1-2

(Thousands of Georgian Lari)

11. Investment Securities (continued)

Held-to-maturity securities comprise:

	2011		*2010*		*2009*	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*	*Carrying value*	*Nominal value*
Corporate bonds	–	–	21	20	–	–
Certificates of deposit of central banks	–	–	–	–	105,143	105,624
Ministry of Finance treasury bills	–	–	–	–	144,053	149,124
State debt securities	–	–	–	–	–	–
Held-to-maturity securities	**–**	**–**	**21**	**20**	**249,196**	**254,748**

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

	2011		*2010*		*2009*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Corporate Bonds	–	–	10.00	2011	–	–
Certificates of deposit of central banks	–	–	–	–	3.11	2010
Ministry of Finance treasury bills	–	–	–	–	6.33	2010
State debt securities	–	–	–	–	–	–

During the second half of 2010, the Group sold part of investment securities classified as held-to-maturity. Following this transaction, the Group reclassified the remaining investments as available-for-sale, as prescribed by paragraph 52 of IAS 39. Information about the reclassified financial assets is presented in the table below:

	31 December 2010		
	Amortised cost	*Fair value*	*Fair value gain (loss) recognised in other comprehensive income*
Central banks' treasury bills	123,785	124,045	260
Certificates of deposit of central banks	104,982	104,969	(13)
Central banks' treasury bonds	51,542	52,120	578
Total reclassified	**280,309**	**281,134**	**825**

12. Investments in Associates

The following associates are accounted for under the equity method:

31 December 2011 Associates	*Ownership / Voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
JSC N Tour	30.00%	Georgia	1/11/2001	Travel services	29/05/2008
JSC Hotels and Restaurants Management Group – m/Group	25.00%	Georgia	30/05/2005	Food retail	29/05/2008
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
JSC Caucasus Automotive Retail	30.00%	Georgia	18/04/2008	Car retail	2/05/2008
Style +, LLC	32.45%	Georgia	1/08/2005	Advertising	7/08/2008

(Thousands of Georgian Lari)

12. Investments in Associates (continued)

31 December 2010 Associates	***Ownership / Voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
JSC N Tour	30.00%	Georgia	1/11/2001	Travel services	29/05/2008
JSC Hotels and Restaurants Management Group – m/Group	25.00%	Georgia	30/05/2005	Food retail	29/05/2008
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
JSC Info Georgia XXI	50.00%	Georgia	26/04/2001	Business services	20/05/2008
JSC Caucasus Automotive Retail	36.14%	Georgia	18/04/2008	Car retail	2/05/2008
Style +, LLC	32.45%	Georgia	1/08/2005	Advertising	7/08/2008

31 December 2009 Associates	***Ownership / Voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
JSC N Tour	30.00%	Georgia	1/11/2001	Travel services	29/05/2008
JSC Hotels and Restaurants Management Group – m/Group	25.00%	Georgia	30/05/2005	Food retail	29/05/2008
JSC Teliani Valley	27.19%	Georgia	30/06/2000	Winery	13/02/2007
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
JSC Info Georgia XXI	50.00%	Georgia	26/04/2001	Business services	20/05/2008
JSC Caucasus Automotive Retail	30.00%	Georgia	18/04/2008	Car retail	2/05/2008
Style +, LLC	32.45%	Georgia	1/08/2005	Advertising	7/08/2008

Movements in investments in associates were as follows:

	2011	***2010***	***2009***
Investments in associates, beginning of year, gross	**7,870**	**12,834**	**16,990**
Write-off	(2,237)	(1,768)	–
Disposal	(1,624)	–	(24)
Transfers (reclassifications)	–	(3,451)	(1,483)
Net share of (loss) profit	(487)	255	(2,649)
Investments in associates, end of year, gross	**3,522**	**7,870**	**12,834**
Less – Allowance for impairment (Note 17)	(508)	(2,238)	(2,511)
Investments in associates, end of year, net	**3,014**	**5,632**	**10,323**

Investments in associates at 31 December 2011 include goodwill of GEL 2,209 (2010: GEL 3,399, 2009: GEL 3,120). Write-off of GEL 2,237 comprise of GEL 1,148 investment in N Tour, GEL 581 investment in JSC Caucasus Automotive Retail and GEL 508 investment in Style +, LLC. Disposal of GEL 1,624 is the sale of JSC Info-Georgia XXI. Reclassification of GEL 3,451 in 2010 comprises investment in JSC Teliani Valley. Reclassifications of GEL 1,483 in 2009 comprise investments in SB Iberia and SB Iberia 2. Subsequent to acquisition of controlling stakes in these companies, the Group added previous investments of GEL 1,483 to total acquisition cost of these companies and this amount affected the respective price allocation, contributing to respective goodwill arising on these acquisitions.

The following table summarises certain financial information of the associates:

Aggregated assets and liabilities of associates	***2011***	***2010***	***2009***
Assets	13,962	16,610	33,861
Liabilities	(8,880)	(8,608)	(18,329)
Net assets	**5,082**	**8,002**	**15,532**

Aggregated revenue and profit of associates	***2011***	***2010***	***2009***
Revenue	17,800	20,654	48,672
(Loss) profit	(2,550)	712	445

(Thousands of Georgian Lari)

13. Investment Properties

	2011	*2010*	*2009*
At 1 January	**113,496**	**79,509**	**47,289**
Acquisition through business combinations (Note 5)	–	–	12,630
Additions*	16,565	35,146	495
Disposals	(7,889)	(5,490)	(755)
Disposals through sale of subsidiary	(13,654)	–	–
Net change in fair value through profit and loss	1,984	350	(4,087)
Transfers (to) from property and equipment and other assets	(8,816)	3,981	23,937
At 31 December	**101,686**	**113,496**	**79,509**

**2011 and 2010 additions comprise foreclosed properties, no cash transactions were involved.*

Investment properties are stated at fair value, which has been determined based on the valuation performed by a professional valuation company, an accredited independent appraiser, as at 31 December 2011. The appraiser 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.

Rental income and direct operating expenses arising from investment properties comprise:

	2011	*2010*	*2009*
Rental income	3,188	2,750	3,026
Direct operating expenses	(225)	(136)	(114)

The entire amount of direct operating expenses participated in the generation of rental income during the respective years.

(Thousands of Georgian Lari)

14. Property and Equipment

The movements in property and equipment during the year ended 31 December 2011 were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2010	**150,516**	**100,559**	**42,183**	**8,341**	**7,530**	**42,766**	**351,895**
Acquisition through business combinations (Note 5)	26,055	1,958	9,461	260	–	646	38,380
Additions	10,696	11,440	8,467	1,803	328	44,029	76,763
Disposals	(3,474)	(293)	(944)	(716)	(743)	(686)	(6,856)
Disposals through sale of subsidiaries	(5,735)	(1,876)	(1,192)	(649)	(175)	(751)	(10,378)
Transfers	60,938	252	32	(122)	1,428	(62,528)	–
Transfers to investment properties	(2,500)	–	–	–	–	–	(2,500)
Revaluation	(1,561)	–	–	–	–	–	(1,561)
Effect of hyperinflation	9,474	439	703	153	99	172	11,040
Currency translation adjustment	(11,103)	(4,895)	(2,051)	(552)	(514)	(2,954)	(22,069)
31 December 2011	**233,306**	**107,584**	**56,659**	**8,518**	**7,953**	**20,694**	**434,714**
Accumulated impairment							
31 December 2010	**2,222**	**262**	**118**	**14**	**–**	**–**	**2,616**
Disposals through sale of subsidiaries	(1,307)	(261)	(49)	(13)	–	–	(1,630)
Effect of hyperinflation	2,186	34	81	7	–	–	2,308
Currency translation adjustment	(475)	2	(44)	(2)	–	–	(519)
31 December 2011	**2,626**	**37**	**106**	**6**	**–**	**–**	**2,775**
Accumulated depreciation							
31 December 2010	**1,629**	**32,192**	**21,901**	**5,187**	**2,518**	**–**	**63,427**
Depreciation charge	2,204	11,626	6,447	1,951	1,365	–	23,593
Effect of hyperinflation	35	112	286	55	9	–	497
Currency translation difference	(1,594)	(47)	1,080	(20)	(86)	–	(667)
Disposals	(83)	(283)	(694)	(673)	(546)	–	(2,279)
Disposals through sale of subsidiaries	(100)	(124)	(107)	(36)	(30)	–	(397)
Revaluation	(345)	–	–	–	–	–	(345)
31 December 2011	**1,746**	**43,476**	**28,913**	**6,464**	**3,230**	**–**	**83,829**
Net book value:							
31 December 2010	**146,665**	**68,105**	**20,164**	**3,140**	**5,012**	**42,766**	**285,852**
31 December 2011	**228,934**	**64,071**	**27,640**	**2,048**	**4,723**	**20,694**	**348,110**

(Thousands of Georgian Lari)

14. Property and Equipment (continued)

The movements in property and equipment during the year ended 31 December 2010 were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2009	**137,705**	**90,082**	**34,753**	**7,622**	**7,870**	**55,719**	**333,751**
Acquisition through business combinations (Note 5)	3,171	258	4,628	269	–	370	8,696
Additions	805	11,250	2,824	585	830	20,140	36,434
Disposals	(2,224)	(3,843)	(643)	(607)	(2,315)	(11,762)	(21,394)
Transfers	21,929	(17)	(19)	196	994	(23,083)	–
Transfers to investment properties	(3,714)	–	–	–	–	(267)	(3,981)
Revaluation	(9,365)	–	–	–	–	–	(9,365)
Currency translation adjustment	2,209	2,829	640	276	151	1,649	7,754
31 December 2010	**150,516**	**100,559**	**42,183**	**8,341**	**7,530**	**42,766**	**351,895**
Accumulated impairment							
31 December 2009	**3,435**	**262**	**200**	**14**	**–**	**–**	**3,911**
Impairment charge	435	–	–	–	–	–	435
Disposals	(1,648)	–	(82)	–	–	–	(1,730)
31 December 2010	**2,222**	**262**	**118**	**14**	**–**	**–**	**2,616**
Accumulated depreciation							
31 December 2009	**4,463**	**23,870**	**16,173**	**3,680**	**2,925**	**–**	**51,111**
Depreciation charge	3,891	11,510	6,048	1,715	1,346	–	24,510
Currency translation difference	103	31	6	19	–	–	159
Disposals	(322)	(3,219)	(326)	(227)	(1,753)	–	(5,847)
Revaluation	(6,506)	–	–	–	–	–	(6,506)
31 December 2010	**1,629**	**32,192**	**21,901**	**5,187**	**2,518**	**–**	**63,427**
Net book value:							
31 December 2009	**129,807**	**65,950**	**18,380**	**3,928**	**4,945**	**55,719**	**278,729**
31 December 2010	**146,665**	**68,105**	**20,164**	**3,140**	**5,012**	**42,766**	**285,852**

The movements in property and equipment during the year ended 31 December 2009 were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2008	**147,030**	**76,603**	**36,500**	**7,825**	**8,466**	**58,550**	**334,974**
Acquisition through business combinations (Note 5)	–	22	–	33	–	–	55
Additions	2,025	12,813	1,609	821	593	5,566	23,427
Disposals	(4,638)	(350)	(3,426)	(1,084)	(1,896)	(173)	(11,567)
Transfers	588	503	222	49	653	(2,015)	–
Transfers to investment properties	–	–	–	–	–	(6,387)	(6,387)
Revaluation	(3,205)	–	–	–	–	–	(3,205)
Currency translation adjustment	(4,095)	491	(152)	(22)	54	178	(3,546)
31 December 2009	**137,705**	**90,082**	**34,753**	**7,622**	**7,870**	**55,719**	**333,751**
Accumulated impairment							
31 December 2008	**625**	**1**	**84**	**1**	**–**	**–**	**711**
Impairment charge	2,810	261	116	13	–	–	3,200
31 December 2009	**3,435**	**262**	**200**	**14**	**–**	**–**	**3,911**
Accumulated depreciation							
31 December 2008	**1,049**	**14,168**	**11,867**	**2,593**	**2,802**	**–**	**32,479**
Depreciation charge	3,380	10,257	5,579	1,681	1,619	–	22,516
Currency translation difference	280	26	20	15	4	–	345
Disposals	–	(163)	(811)	(392)	(1,500)	–	(2,866)
Revaluation	(246)	(418)	(482)	(217)	–	–	(1,363)
31 December 2009	**4,463**	**23,870**	**16,173**	**3,680**	**2,925**	**–**	**51,111**
Net book value:							
31 December 2008	**145,356**	**62,434**	**24,549**	**5,231**	**5,664**	**58,550**	**301,784**
31 December 2009	**129,807**	**65,950**	**18,380**	**3,928**	**4,945**	**55,719**	**278,729**

(Thousands of Georgian Lari)

14. Property and Equipment (continued)

The Group engaged, an independent appraiser, to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The most recent revaluation report for the Bank's buildings was 31 December 2010. No significant changes of the value of buildings took place during the year ended 31 December 2011. If the buildings were measured using the cost model, the carrying amounts of the buildings as at 31 December 2011, 31 December 2010 and 31 December 2009 would be as follows:

	2011	*2010*	*2009*
Cost	164,151	79,800	60,797
Accumulated depreciation and impairment	(8,012)	(7,550)	(10,487)
Net carrying amount	**156,139**	**72,250**	**50,310**

15. Intangible Assets

Movements in goodwill and intangible assets during the year ended 31 December 2011 were as follows:

	Goodwill	*Core deposit intangible*	*Computer software and license*	*Total other intangible assets*	*Total*
Cost					
31 December 2010	**142,284**	**2,530**	**30,736**	**33,266**	**175,550**
Acquisition through business combinations (Note 5)	377	–	–	–	377
Additions	–	–	6,443	6,443	6,443
Disposals	–	–	(288)	(288)	(288)
Disposals through sale of subsidiaries	(68,016)	(1,688)	(982)	(2,670)	(70,686)
Effect of hyperinflation	–	–	197	197	197
Currency translation difference	–	–	(1,468)	(1,468)	(1,468)
31 December 2011	**74,645**	**842**	**34,638**	**35,480**	**110,125**
Accumulated amortization and impairment					
31 December 2010	**73,072**	**–**	**10,876**	**10,876**	**83,948**
Amortization charge	–	–	3,661	3,661	3,661
Impairment charge	23,394	–	–	–	23,394
Disposals	–	–	(61)	(61)	(61)
Disposals through sale of subsidiaries	(68,016)	–	(233)	(233)	(68,249)
Effect of hyperinflation	–	–	84	84	84
Currency translation difference	–	–	(69)	(69)	(69)
31 December 2011	**28,450**	**–**	**14,258**	**14258**	**42,708**
Net book value:					
31 December 2010	**69,212**	**2,530**	**19,860**	**22,390**	**91,602**
31 December 2011	**46,195**	**842**	**20,380**	**21,222**	**67,417**

Impairment charge of goodwill in 2011 completely comprises JSC Belarusky Narodny Bank – GEL 23,394. The main reason for impairment was insufficient future operating cash flows expected to be received per forecasts of the respective cash generating units.

(Thousands of Georgian Lari)

15. Intangible Assets (continued)

Movements in goodwill and intangible assets during the year ended 31 December 2010 were as follows:

	Goodwill	*Core deposit intangible*	*Computer software and license*	*Total other intangible assets*	*Total*
Cost					
31 December 2009	**138,849**	**2,530**	**24,681**	**27,211**	**166,060**
Acquisition through business combinations (Note 5)	3,435	–	8	8	3,443
Additions	–	–	5,405	5,405	5,405
Disposals	–	–	(296)	(296)	(296)
Currency translation difference	–	–	938	938	938
31 December 2010	**142,284**	**2,530**	**30,736**	**33,266**	**175,550**
Accumulated amortization and impairment					
31 December 2009	**73,072**	**–**	**7,546**	**7,546**	**80,618**
Amortization charge	–	–	3,453	3,453	3,453
Disposals	–	–	(117)	(117)	(117)
Currency translation difference	–	–	(6)	(6)	(6)
31 December 2010	**73,072**	**–**	**10,876**	**10,876**	**83,948**
Net book value:					
31 December 2009	**65,777**	**2,530**	**17,135**	**19,665**	**85,442**
31 December 2010	**69,212**	**2,530**	**19,860**	**22,390**	**91,602**

Movements in goodwill and intangible assets during the year ended 31 December 2009 were as follows:

	Goodwill	*Core deposit intangible*	*Computer software and license*	*Total other intangible assets*	*Total*
Cost					
31 December 2008	**134,238**	**2,499**	**20,791**	**23,290**	**157,528**
Acquisition through business combinations (Note 5)	5,015	–	–	–	5,015
Additions	–	33	4,468	4,501	4,501
Disposals	(411)	–	(577)	(577)	(988)
Currency translation difference	7	(2)	(1)	(3)	4
31 December 2009	**138,849**	**2,530**	**24,681**	**27,211**	**166,060**
Accumulated amortization and impairment					
31 December 2008	**–**	**–**	**5,069**	**5,069**	**5,069**
Amortization charge	–	–	2,912	2,912	2,912
Charge for impairment	73,072	–	–	–	73,072
Disposals	–	–	(404)	(404)	(404)
Currency translation difference	–	–	(31)	(31)	(31)
31 December 2009	**73,072**	**–**	**7,546**	**7,546**	**80,618**
Net book value:					
31 December 2008	**134,238**	**2,499**	**15,722**	**18,221**	**152,459**
31 December 2009	**65,777**	**2,530**	**17,135**	**19,665**	**85,442**

(Thousands of Georgian Lari)

15. Intangible Assets (continued)

Impairment charge of goodwill in 2009 comprise: JSC BG Bank – GEL 68,016, SB Iberia – GEL 3,907, SB Iberia 2 – GEL 744, JSC United Securities Registrar of Georgia – GEL 366 and JSC Intertour – GEL 39. In all of these instances, the main reason for impairment was insufficient future operating cash flows expected to be received per forecasts of the respective cash generating units.

As at 31 December 2011 goodwill acquired through business combinations was originated from the following legal entities of the Group and have been further allocated to the proper cash generating units:

- JSC Bank of Georgia
- JSC Belarusky Narodny Bank
- JSC Insurance Company Aldagi – BCI
- JSC My Family Clinic
- JSC Intertour
- Planeta Forte, LLC

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget under the assumption that business will have a zero constant growth rate after the budgeted period and the cash flows will be stable. The discount rate applied to cash flow projections is the weighted average cost of capital ("WACC") of each particular cash-generating unit.

Carrying amount of goodwill (less impairment) was originated from the following legal entities of the Group:

		WACC applied for impairment			*Carrying amount of goodwill*		
	Effective annual growth rate in three-year financial budgets	***2011***	***2010***	***2009***	***2011***	***2010***	***2009***
JSC Bank of Georgia	31%	8.50%	8.82%	8.70%	22,398	22,398	22,398
JSC Insurance Company Aldagi – BCI	20%	13.30%	12.61%	17.20%	18,742	18,742	18,742
JSC Teliani Valley	37%	15.70%	14.56%	N/A	3,292	3,292	–
JSC Intertour	20%	14.96%	14.96%	14.08%	659	659	659
Insurance Company Partner, LLC	20%	13.30%	–	–	377	–	–
Planeta Forte, LLC	20%	2.78%	2.78%	17.20%	364	364	364
JSC My Family Clinic	20%	13.30%	12.61%	17.20%	220	220	220
Teliani Trading (Ukraine), LLC	37%	15.70%	14.56%	N/A	143	143	–
JSC Belarusky Narodny Bank	20%	13.70%	8.51%	16.26%	–	23,394	23,394
Total					**46,195**	**69,212**	**65,777**

The three-year effective growth rate indicated in the table above represents the effective average annual growth rate that is embedded into the respective three-year financial budget of the respective entity, as approved by its management, calculated individually per each respective entity. Third year operating cash flows were taken at perpetuity and zero growth-rate was applied beyond the third year.

Goodwill amount that arose from JSC Intellect Bank and JSC Tbiluniversal Bank acquisition is allocated to JSC Bank of Georgia, mainly due to the fact that JSC Bank of Georgia has utilized the assets and liabilities of the said financial institutions.

Impairment testing of goodwill and other intangible assets with indefinite lives

Goodwill acquired through business combinations with indefinite lives have been allocated to four individual cash-generating units, which are also reportable segments, for impairment testing: corporate banking, retail banking, insurance and asset & wealth management and brokerage.

(Thousands of Georgian Lari)

15. Intangible Assets (continued)

Impairment testing of goodwill and other intangible assets with indefinite lives (continued)

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2011	*2010*	*2009*
Insurance & Healthcare	19,339	18,962	18,962
Retail banking	12,433	12,433	14,708
Corporate banking	9,965	9,965	7,690
Liberty Consumer	4,458	4,458	1,023
BNB & BGB	–	23,394	23,394
Total	**46,195**	**69,212**	**65,777**

Key assumptions used in value in use calculations

The recoverable amounts of the cash generating units have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering from one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets.

The following rates are used by the Bank for corporate banking and retail banking:

	Corporate Banking			*Retail Banking*		
	2011, %	*2010, %*	*2009, %*	*2011, %*	*2010, %*	*2009, %*
Discount rate	8.5%	8.9%	9.1%	8.5%	8.9%	8.8%

The following rates are used by the Bank for Insurance and Brokerage and Asset & Wealth Management:

	Insurance & Healthcare			*Liberty Consumer*		
	2011, %	*2010, %*	*2009, %*	*2011, %*	*2010, %*	*2009, %*
Discount rate	13.3%	12.6%	17.2%	14.5%	14.5%	16.45%

The following rates are used by the Bank for BNB & BGB:

	BNB & BGB		
	2011, %	*2010, %*	*2009, %*
Discount rate	8.5%	8.9%	9.0%

The calculation of value-in-use for both Asset Management and Retail Banking units is most sensitive to interest margins and discount rates assumptions:

Discount rates

Discount rates reflect management's estimate of return of capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using WACC.

(Thousands of Georgian Lari)

16. Taxation

The corporate income tax benefit (expense) comprises:

	2011	*2010*	*2009*
Current income tax benefit (expense)	4,985	(12,365)	(1,872)
Deferred income tax benefit (expense)	(2,923)	(3,411)	8,870
Income tax benefit (expense)	**2,062**	**(15,776)**	**6,998**
Income tax (expense) benefit attributable to continuing operations	**(21,125)**	**(15,776)**	**6,998**
Income tax benefit attributable to a discontinued operation (Note 29)	**23,187**	**–**	**–**
Deferred income tax benefit (expense) from continuing operations in other comprehensive (loss) income	5,581	206	(704)
Deferred income tax benefit from discontinued operations in other comprehensive income (Note 29)	625	–	–
Total deferred income tax benefit (expense) recognized in other comprehensive income	**6,206**	**206**	**(704)**

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2011, 2010 and 2009 is as follows:

	2011	*2010*	*2009*
Currency translation differences	6,175	–	–
Net losses on investment securities available for sale	124	146	(620)
Revaluation of buildings	(93)	(58)	124
Other	–	118	(208)
Income tax benefit (expense) to other comprehensive income	**6,206**	**206**	**(704)**

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 23% (2010: from 15% to 26%, 2009: from 15% to 26%). Reconciliation between the expected and the actual taxation charge is provided below.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2011, 31 December 2010 and 31 December 2009 a reconciliation of the income tax expense based on statutory rates with actual is as follows:

(Thousands of Georgian Lari)

16. Taxation (continued)

	2011	*2010*	*2009*
Profit (loss) before income tax benefit (expense) from continuing operations	172,054	98,443	(105,906)
Net loss before income tax benefit from discontinued operations (Note 29)	(38,406)	–	–
Profit (loss) before income tax benefit (expense)	**133,648**	**98,443**	**(105,906)**
Statutory tax rate	15%	15%	15%
Theoretical income tax (expense) benefit at statutory tax rate	**(20,047)**	**(14,766)**	**15,886**
Tax at the domestic rates applicable to profits in the respective country	(2,050)	(291)	3,614
Correction of prior year declarations	8,408	–	–
Loss on disposal of subsidiary *	18,593	–	–
Other operating income	–	229	408
State securities at lower tax rates	–	564	677
Non-deductible expenses:			
– Impairment of goodwill	(3,509)	–	(10,308)
– Share-based compensation expenses	–	(1,325)	(717)
– Business trips	–	(288)	–
– Entertainment	–	(71)	–
– Charity	–	(10)	–
– Other impairment recoveries	–	–	(2,460)
– Other	667	182	(102)
Income tax benefit (expense)	**2,062**	**(15,776)**	**6,998**
Income tax (expense) benefit attributable to continuing operations	(21,125)	(15,776)	6,998
Income tax benefit attributable to a discontinued operation (Note 29)	23,187	–	–
Income tax benefit (expense)	**2,062**	**(15,776)**	**6,998**

**** This is loss recognised in tax declaration of 2011 from disposal of PJSC Bank Pershyi (formerly known as JSC BG Bank).***

Correction of prior year declarations are fully attributable to Georgia and it includes GEL 3,315 of the corporate income tax benefit for the prior years, recognized in 2011, based on the new tax ruling obtained from the Tax Authorities in Georgia regarding the updated treatment of the deductibility of the share-based compensation expense before taxable profit.

Applicable taxes in Georgia, Ukraine and Belarus include corporate income tax (profit 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.

As at 31 December 2011, 31 December 2010 and 31 December 2009 tax assets and liabilities consist of the following:

	2011	*2010*	*2009*
Current income tax assets	8,487	2,247	7,997
Deferred income tax assets	14,852	18,178	15,487
Income tax assets	**23,339**	**20,425**	**23,484**
Current income tax liabilities	1,174	4,251	574
Deferred income tax liabilities	36,242	30,901	24,661
Income tax liabilities	**37,416**	**35,152**	**25,235**

(Thousands of Georgian Lari)

16. Taxation (continued)

Deferred tax assets and liabilities as at 31 December and their movements for the respective years follows:

		Origination and reversal of temporary differences				Origination and reversal of temporary differences				Origination and reversal of temporary differences				
	2008	*In the income statement*	*In other compre-hensive income*	*Effect of business combi-nation*	*2009*	*In the income statement*	*In other compre-hensive income*	*Effect of business combi-nation*	*2010*	*In the income statement*	*In other compre-hensive income*	*Effect of business comb-nation*	*Disposal of subsidiary*	*2011*
Tax effect of deductible temporary differences:														
Amounts due to credit institutions	–	–	–	–	–	–	–	–	–	1,264	–	–	–	1,264
Investment securities: available-for-sale	1,826	(295)	(620)	–	911	20	279	–	1,210	(988)	522	–	(7)	737
Loans to customers	470	9,659	–	–	10,129	440	–	–	10,569	(345)	(36)	–	(10,188)	–
Allowance for loan impairment	–	–	–	–	–	–	–	–	–	18	(9)	–	–	9
Amounts due to customers	–	–	–	–	–	–	–	–	–	26	(13)	–	–	13
Other insurance liabilities & pension fund obligations	–	–	–	–	–	–	–	–	–	275	176	–	–	451
Investment properties	–	–	–	1,604	1,604	349	–	–	1,953	(12)	(1,604)	–	(337)	–
Reinsurance assets	243	129	–	–	372	(117)	–	–	255	–	(27)	–	–	228
Insurance premiums receivables	2,073	(376)	–	–	1,697	–	–	–	1,697	–	–	–	–	1,697
Allowances for impairment and provisions for other losses	465	732	–	–	1,197	867	–	–	2,064	–	(722)	–	–	1,342
Tax losses carried forward	18,002	1,516	(26)	–	19,492	(15,020)	–	–	4,472	3,714	5,181	–	(1,035)	12,332
Finance lease receivables	284	35	–	–	319	–	–	–	319	23	(35)	–	–	307
Intangible assets	239	25	–	–	264	24	–	–	288	28	(135)	–	–	181
Property and equipment	1,783	149	289	–	2,221	(20)	290	78	2,569	(33)	(358)	–	–	2,178
Other assets	463	359	–	–	822	147	34	–	1,003	81	(103)	–	(13)	968
Other liabilities	735	1,190	–	–	1,925	(698)	–	–	1,227	604	(83)	–	(218)	1,530
Gross deferred tax assets	**26,583**	**13,123**	**(357)**	**1,604**	**40,953**	**(14,008)**	**603**	**78**	**27,626**	**4,655**	**2,754**	**–**	**(11,798)**	**23,237**
Unrecognized deferred tax assets	–	–	(131)	–	(131)	131	–	–	–	–	–	–	–	–
Deferred tax assets	**26,583**	**13,123**	**(488)**	**1,604**	**40,822**	**(13,877)**	**603**	**78**	**27,626**	**4655**	**2754**	**–**	**(11,798)**	**23,237**
Tax effect of taxable temporary differences:														
Fair value measurement of securities	–	–	–	–	–	203	–	–	203	–	(203)	–	–	–
Amounts due to credit institutions	2,051	(317)	–	–	1,734	39	–	–	1,773	(8)	–	–	(31)	1,734
Amounts due to customers	508	–	–	–	508	1,078	(119)	–	1,467	(7)	(8)	–	(942)	510
Securities available-for-sale	182	–	–	–	182	249	133	–	564	(1,157)	593	–	–	–
Loans to customers	7,103	13,776	–	–	20,879	(10,314)	–	–	10,565	(1,452)	(91)	–	–	9,022
Allowance for loan impairment	–	–	–	–	–	–	–	–	–	622	(307)	–	–	315
Reinsurance assets	27	–	–	–	27	13	–	–	40	–	(27)	–	–	13
Finance lease receivables	–	–	–	–	–	–	–	–	–	9	(4)	–	–	5
Allowances for impairment and provisions for other losses	1,223	(1,223)	–	–	–	770	–	–	770	(13)	(602)	–	–	155
Other insurance liabilities & pension fund obligations	–	–	–	–	–	7	–	–	7	218	179	–	–	404
Property and equipment	28,480	(6,194)	165	–	22,451	(3,756)	348	379	19,422	6,474	(957)	1,167	57	26,163
Investment properties	2,861	(2,313)	–	–	548	20	–	–	568	1,697	(1,650)	–	–	615
Intangible assets	2,297	87	28	–	2,412	1,364	–	–	3,776	814	(175)	–	(99)	4,316
Other assets	341	399	23	20	783	(677)	35	–	141	1,163	(256)	–	–	1,048
Other liabilities	434	38	–	–	472	538	–	43	1,053	(782)	56	–	–	327
Deferred tax liabilities	**45,507**	**4,253**	**216**	**20**	**49,996**	**(10,466)**	**397**	**422**	**40,349**	**7,578**	**(3,452)**	**1,167**	**(1,015)**	**44,627**
Net deferred tax assets (liabilities)	**(18,924)**	**8,870**	**(704)**	**1,584**	**(9,174)**	**(3,411)**	**206**	**(344)**	**(12,723)**	**(2,923)**	**6,206**	**(1,167)**	**(10,783)**	**(21,390)**

(Thousands of Georgian Lari)

17. Other Impairment Allowance and Provisions

	Impairment allowance for investments in associates	Impairment allowance for other assets	Impairment allowance for available-for-sale investment securities	Provision for guarantees and commitments	Total
31 December 2008	**274**	**549**	**–**	**4,263**	**5,086**
Charge (reversal)	2,237	5,513	818	(2,137)	6,431
Write-offs	–	(342)	–	–	(342)
31 December 2009	**2,511**	**5,720**	**818**	**2,126**	**11,175**
Charge (reversal)	1,495	(2,130)	1,941	2,281	3,587
Write-offs	(1,768)	(345)	(777)	–	(2,890)
Recoveries	–	64	–	–	64
31 December 2010	**2,238**	**3,309**	**1,982**	**4,407**	**11,936**
Charge (reversal)	–	2,684	–	(4,021)	(1,337)
Impairment of receivables from discontinued operations (Note 29)	–	3,730	–	–	3,730
Write-offs	(1,730)	(2,086)	(1,982)	–	(5,798)
Currency translation difference	–	(135)	–	–	(135)
31 December 2011	**508**	**7,502**	**–**	**386**	**8,396**

Impairment of receivables from discontinued operations constitutes a partial impairment of the receivables remaining from the sale of 80% equity interest in JSC BG Bank, currently known as PJSC Bank Pershyi.

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

18. Other Assets and Other Liabilities

Other assets comprise:

	2011	*2010*	*2009*
Derivative financial assets	36,823	2,933	1,129
Inventory	27,903	9,828	1,212
Accounts receivable	24,126	17,093	4,026
Insurance premiums receivable	24,052	21,413	20,619
Reinsurance assets	8,859	7,307	4,920
Receivables from money transfers	4,937	3,358	2,508
Operating taxes receivables	4,683	1,793	1,296
Settlements on operations with securities	1,972	5,182	3,027
Assets purchased for finance lease purposes	1,877	1,434	2,316
Trading securities owned	1,115	1,218	2,268
Receivable from documentary operations	1,026	1,338	4,338
Receivables from sale of assets	663	797	1,420
Operating lease receivables	309	266	426
Foreclosed assets	169	1,049	946
Prepayments for purchase of property and equipment	–	959	344
Assets held-for-sale	–	314	–
Other	6,556	2,447	3,205
	145,070	**78,729**	**54,000**
Less – Allowance for impairment of other assets (Note 17)	(7,502)	(3,309)	(5,720)
Other assets	**137,568**	**75,420**	**48,280**

(Thousands of Georgian Lari)

18. Other Assets and Other Liabilities (continued)

Other liabilities comprise:

	2011	*2010*	*2009*
Accruals for employee compensation	40,825	25,111	21,860
Accounts payable	35,025	2,617	6,269
Insurance contracts liabilities	35,009	32,695	30,304
Derivative financial liabilities	15,856	17,525	7,460
Accruals and deferred income	8,915	3,268	35
Other insurance liabilities	8,534	4,431	6,152
Pension benefit obligations	6,353	4,949	3,856
Other taxes payable	2,777	2,418	2,862
Creditors	1,751	8,412	4,226
Dividends payable	359	303	314
Amounts payable for share acquisitions	1	259	254
Amounts payable for purchase of intangible assets	–	9	78
Other	3,057	4,790	2,236
Other liabilities	**158,462**	**106,787**	**85,906**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2011		
	Notional amount	*Fair value Asset*	*Fair value Liability*
Interest rate contracts			
Forwards and Swaps – foreign	263,309	–	9,542
Foreign exchange contracts			
Forwards and Swaps – domestic	97,781	275	196
Forwards and Swaps – foreign	255,348	35,850	5,791
Equity / Commodity contracts			
Call options – foreign	5,010	698	–
Embedded derivatives from investment deposits	–	–	327
Total derivative assets / liabilities	**621,448**	**36,823**	**15,856**

	2010			*2009*		
	Notional amount	*Fair value Asset*	*Fair value Liability*	*Notional amount*	*Fair value Asset*	*Fair value Liability*
Interest rate contracts						
Forwards and Swaps – foreign	338,369	–	14,527	332,108	–	6,447
Foreign exchange contracts						
Forwards and Swaps – domestic	66,058	777	597	24,410	–	288
Options – foreign	54,121	1,815	2,211	1,096	82	–
Equity / Commodity contracts						
Call options – foreign	3,014	341	–	8,429	1,047	–
Embedded derivatives from investment deposits	–	–	190	–	–	725
Total derivative assets / liabilities	**461,562**	**2,933**	**17,525**	**366,043**	**1,129**	**7,460**

(Thousands of Georgian Lari)

19. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2011	*2010*	*2009*
Borrowings from international credit institutions	863,004	1,003,926	913,579
Time deposits and inter-bank loans	42,837	130,284	12,761
Sub-total	**905,841**	**1,134,210**	**926,340**
Correspondent accounts	15,331	4,717	2,275
Amounts due to credit institutions	**921,172**	**1,138,927**	**928,615**

During the year ended 31 December 2011 the Group received short-term funds from Georgian banks in different currencies. As at 31 December 2011 the Group had an equivalent of GEL 2,548 (2010: GEL 13,030, 2009: GEL 1,566) in foreign currencies received as deposits from Georgian banks. During the year ended 31 December 2011 the Group paid up to 4.0% interest on these deposits (2010: 4.0%, 2009: 0.2%).

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

As at 31 December 2011

Credit institution	*Grant date*	*Contractual maturity*	*Currency*	*Facility amount in original currency*	*Outstanding Balance as at 31 December 2011 in GEL (*)*
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	55,507	95,954
Asian Development Bank	1-Dec-10	1-Dec-15	USD	50,000	83,101
Merrill Lynch International **	17-Aug-07	17-Aug-12	USD	35,000	60,654
European Bank for Reconstructions and Development	13-Jan-09	15-Jan-14	USD	50,000	59,939
International Finance Corporation	13-Jan-09	15-Jul-13	USD	50,000	56,190
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	30,000	49,862
Netherland Development Finance Company **	18-Jul-08	15-Oct-18	USD	30,000	49,690
European Bank for Reconstructions and Development **	13-Jan-09	15-Jan-19	USD	26,044	41,912
International Finance Corporation **	13-Jan-09	15-Jan-19	USD	26,044	41,907
International Financial Corporatation **	13-Jan-09	15-Jan-19	USD	23,956	40,832
European Bank for Reconstructions and Development**	13-Jan-09	15-Jan-19	USD	23,956	40,779
Overseas Private Investment Corporation	23-Dec-08	20-Dec-18	USD	29,000	37,319
European Bank for Reconstructions and Development	12-Nov-10	5-Dec-15	USD	20,000	33,328
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	20,000	33,243
Semper Augustos B.V. **	31-Oct-07	30-Oct-17	USD	15,000	25,565
European Bank for Reconstructions and Development	8-Dec-11	8-Dec-16	GEL	24,020	23,927
Overseas Private Investment Corporation **	23-Dec-08	20-Dec-18	USD	10,000	16,491
Netherland Development Finance Company	22-Jan-07	15-Mar-14	USD	12,500	9,200
JSC HSBC Bank Georgia	30-Dec-11	5-Jan-12	GEL	9,000	9,001
International Finance Corporation	21-Oct-10	15-Dec-14	USD	5,000	8,339
ING Bank N.V.	9-Nov-11	1-Jan-20	USD	11,906	6,961
World Business Capital	17-Feb-06	25-Dec-15	USD	10,000	6,740
Baltikums Bank AS	12-Dec-11	12-Jan-12	EUR	3,000	6,493
European Bank for Reconstructions and Development	20-Jun-11	25-Jul-16	USD	20,000	6,334
World Business Capital	29-May-07	25-Mar-17	USD	3,130	5,228
JSC Procredit Bank	29-Dec-11	31-Jan-12	GEL	5,000	5,001
Balances less than GEL 5,000	various	various	various	various	51,851
Total					**905,841**

(Thousands of Georgian Lari)

19. Amounts Due to Credit Institutions (continued)

As at 31 December 2010

Credit institution	*Grant date*	*Contractual maturity*	*Currency*	*Facility amount in original currency*	*Outstanding Balance as at 31 December 2010 in GEL (*)*
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	200,000	270,880
International Finance Corporation	13-Jan-09	15-Jul-13	USD	50,000	89,015
European Bank for Reconstructions and Development	13-Jan-09	15-Jan-14	USD	50,000	88,258
National Bank of Georgia	30-Dec-10	6-Jan-11	GEL	66,300	66,300
Merrill Lynch International **	17-Aug-07	17-Aug-12	USD	35,000	62,476
Netherland Development Finance Company **	18-Jul-08	15-Oct-18	USD	30,000	52,916
Overseas Private Investment Corporation	23-Dec-08	20-Dec-18	USD	29,000	45,209
Asian Development Bank	1-Dec-10	1-Dec-15	USD	50,000	43,566
European Bank for Reconstructions and Development**	13-Jan-09	15-Jan-19	USD	23,956	43,402
International Financial Corporatation **	13-Jan-09	15-Jan-19	USD	23,956	43,396
International Finance Corporation **	13-Jan-09	15-Jan-19	USD	26,044	42,796
European Bank for Reconstructions and Development **	13-Jan-09	15-Jan-19	USD	26,044	42,708
European Bank for Reconstructions and Development	12-Nov-10	5-Dec-15	USD	20,000	35,272
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	30,000	35,016
Semper Augustos B.V. **	31-Oct-07	30-Oct-17	USD	15,000	27,134
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	20,000	24,529
Overseas Private Investment Corporation **	23-Dec-08	20-Dec-18	USD	10,000	17,477
Netherland Development Finance Company	22-Jan-07	15-Mar-14	USD	12,500	13,502
International Finance Corporation	21-Oct-10	15-Dec-14	USD	5,000	8,774
World Business Capital	17-Feb-06	25-Dec-15	USD	10,000	8,699
JSC Cartu Bank	23-Dec-10	6-Jan-11	GEL	7,500	7,512
JSC HSBC Bank Georgia	15-Nov-10	15-Feb-11	USD	4,000	7,112
OJSC Pasha Bank	8-Nov-10	8-Feb-11	EUR	3,000	7,050
World Business Capital	29-May-07	25-Mar-17	USD	4,151	6,441
JSC International Bank of Azerbaijan - Georgia	31-Dec-10	3-Jan-11	GEL	6,400	6,400
JSC BTA Bank	10-Nov-10	22-Feb-11	USD	3,000	5,335
UAB Medicinos Bankas	12-Nov-10	11-Feb-11	USD	3,000	5,335
Balances less than GEL 5,000	various	various	various	various	27,700
Total					**1,134,210**

(Thousands of Georgian Lari)

19. Amounts Due to Credit Institutions (continued)

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

*** - includes accrued interest**
**** - total subordinated loans comprised GEL 317,830 as at 31 December 2011 (2010: GEL 332,305, 2009: GEL 317,792)**

During the years ended 2011, 2010 and 2009 the Group paid up to 11.65% on borrowings from international credit institutions.

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 31 December 2011, 31 December 2010 and 31 December 2009 the Group complied with all the financial covenants of the loans received from credit institutions.

The borrowings received on 13 January 2009 from the European Bank for Reconstructions and Development and International Finance 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 3,635,006 ordinary shares as at 31 December 2011 (Note 21, 31 December 2010: 3,474,614) of the Bank.

20. Amounts Due to Customers

The amounts due to customers include the following:

	2011	*2010*	*2009*
Current accounts	1,206,750	864,327	559,987
Time deposits	1,347,334	1,140,371	712,483
Promissory notes issued	181,138	21,610	660
Amounts due to customers	**2,735,222**	**2,026,308**	**1,273,130**
Held as security against letters of credit and guarantees (Note 22)	**24,353**	**20,336**	**56,758**

(Thousands of Georgian Lari)

20. Amounts Due to Customers (continued)

As at 31 December 2011, 31 December 2010 and 31 December 2009, promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. Average effective maturity of the notes comprises 5 months (2010: 10 months, 2009: 9 months).

At 31 December 2011, amounts due to customers of GEL 580,710 (21%) were due to the 10 largest customers (2010: GEL 363,420 (18%), 2009: 217,264 (17%)).

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

	2011	*2010*	*2009*
Private enterprises	1,290,908	964,150	579,509
Individuals	1,056,852	894,312	637,789
State and budget organizations	387,462	167,846	55,832
Amounts due to customers	**2,735,222**	**2,026,308**	**1,273,130**

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

	2011	*2010*	*2009*
Individuals	1,056,852	894,312	637,789
Trade and services	655,551	421,138	273,850
State and budget organizations	387,462	167,846	55,832
Energy	239,797	256,275	116,810
Construction and development	175,906	93,827	79,082
Mining and processing	131,734	113,283	27,638
Transport and communication	36,871	35,226	47,166
Agriculture	14,844	21,379	13,588
Other	36,205	23,022	21,375
Amounts due to customers	**2,735,222**	**2,026,308**	**1,273,130**

21. Equity

Share capital

As at 31 December 2011, authorized share capital comprised 43,308,125 common shares, of which 32,877,860 were issued and fully paid (2010: 43,308,125 common shares, of which 31,344,860 were issued and fully paid, 2009: 43,308,125 common shares, of which 31,306,071 were issued and fully paid). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 31 December 2011 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 (Note 30)	52,788	53
31 December 2009	**31,306,071**	**31,306**
Increase in share capital arising from share-based payments (Note 30)	38,789	39
31 December 2010	**31,344,860**	**31,345**
Increase in share capital arising from issuance of GDRs (Note 30)	1,500,000	1,500
Increase in share capital arising from share-based payments (Note 30)	32,687	33
31 December 2011	**32,877,547**	**32,878**

(Thousands of Georgian Lari)

21. Equity (continued)

Share capital (continued)

Share capital of the Group was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian Lari. The 3,635,006 potential shares underlying the convertible debt instruments held by the Group as at 31 December 2011 (Note 19, 31 December 2010: 3,474,614) were treated as dilutive, because their conversion would decrease earnings per share from continuing operations, as prescribed in IAS 33 – "Earnings per share". This conversion would also reduce the Group's interest expenses on these debt instruments and increase the year ended 31 December 2011 total profit attributable to ordinary shareholders of the Bank. Below is the summary of the earnings per share calculation:

	2011	*2010*	*2009*
Basic earnings per share			
Profit (loss) for the year attributable to ordinary shareholders of the Bank	132,531	83,640	(91,370)
Profit (loss) for the year from continuing operations attributable to ordinary shareholders of the Bank	147,750	83,640	(91,370)
Weighted average number of ordinary shares outstanding during the year	29,866,366	30,037,041	30,494,397
Basic earnings per share	4.4375	2.7846	(2.9963)
Basic earnings per share from continuing operations	4.9470	2.7846	(2.9963)
Dilution effect			
Interest expenses on convertible debt instruments, net of tax	8,029	8,143	–
Number of dilutive potential ordinary shares	3,635,006	3,474,614	–
Diluted earnings per share			
Profit (loss) for the year attributable to ordinary shareholders of the Bank	140,560	91,783	(91,370)
Profit (loss) for the year from continuing operations attributable to ordinary shareholders of the Bank	155,779	91,783	(91,370)
Weighted average number of diluted ordinary shares outstanding during the year	33,501,372	33,511,655	30,494,397
Diluted earnings per share	4.1957	2.7388	(2.9963)
Diluted earnings per share from continuing operations	4.6499	2.7388	(2.9963)

Treasury shares

Treasury shares of GEL 1,208 as at 31 December 2011 comprise the Bank's shares owned by the Bank and its subsidiaries (2010: GEL 1,072, 2009: GEL 668). 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.

An increase in share capital of GEL 1,500 was made for future share based compensation purposes and is kept by the Bank's acting trustee. As a result, treasury shares amounting to GEL 1,938 as at 31 December 2011 (2010: GEL 438, 2009: GEL 1,009) are kept by Abacus Corporate Trustee Limited, acting as the trustee of the Bank.

During the year ended 31 December 2011, 32,687 ordinary shares of GEL 33 par value and additional paid-in capital of GEL 620 have been vested as compensation to top management (2010: 38,789 ordinary shares of GEL 39 par value and additional paid-in capital of GEL 523, 2009: 52,788 ordinary shares of GEL 53 par value and additional paid-in capital of GEL 430).

(Thousands of Georgian Lari)

21. Equity (continued)

Dividends

On 15 June 2011, the annual general meeting of shareholders of JSC Bank of Georgia declared 2011 dividends comprising Georgian Lari 0.3 per share, based on 2010 audited financial results. The declaration is effective from 1 July 2011. Payment of the total GEL 9,169 dividends was made on 18 July 2011.

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 decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. The reserve is also used to record increases in the fair value of those investment properties that were reclassified from land or building in prior years and for which the first appreciation was to be recorded in equity.

Nature and purpose of other reserves (continued)

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

Unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries
This reserve records unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries.

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. Movement of foreign currency translation reserve was as follows:

		Foreign currency translation reserve
31 December 2008		**(16,981)**
Currency translation loss recognised in other comprehensive loss		(12,145)
31 December 2009		**(29,126)**
Currency translation loss recognised in other comprehensive income		5,116
31 December 2010		**(24,010)**
Foreign exchange differences from subsidiary financial statements translation from their functional currencies into the Group's presentation currency	(39,568)	
Loss from translation of non-monetary items from functional currency into presentation currency	(12,925)	
Loss recognized from currency translation differences from continuing operations, recognised in other comprehensive income		(52,493)
Foreign currency gain from discontinued operations (disposal of subsidiary) (Note 29)		26,130
31 December 2011		**(50,373)**

Loss from revaluation of open currency position exposure through investments in subsidiaries is a result of difference between the historical cost of the amount of investment in foreign subsidiary and the total outstanding shareholders equity of the same foreign subsidiary translated into the presentation currency (Georgian Lari) at the exchange rate effective as at the reporting date.

For the years ended 31 December 2011, 31 December 2010 and 31 December 2009, gains (losses) from devaluation of open foreign currency positions mostly comprise losses incurred on depreciation of Belarusian Ruble denominated total shareholders' equity of JSC Belarusky Narodny Bank and depreciation of Ukrainian Hryvnia denominated total shareholders' equity of JSC BG Bank, both against the Georgian Lari.

(Thousands of Georgian Lari)

21. Equity (continued)

Foreign currency gain from disposal of subsidiary (JSC BG Bank) comprises a reclassification of accumulated foreign currency translation differences incurred during prior years, from other comprehensive income statement to the income statement as prescribed by IAS 27.34.

Movements in other reserves during the years ended 31 December 2011, 31 December 2010 and 31 December 2009 are presented in the statements of other comprehensive income.

22. 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

As at 31 December 2011, 31 December 2010 and 31 December 2009 the Group's financial commitments and contingencies comprised the following:

	2011	*2010*	*2009*
Credit-related commitments			
Guarantees issued	463,393	374,230	240,613
Undrawn loan facilities	120,339	138,057	76,999
Letters of credit	70,224	58,779	30,038
	653,956	**571,066**	**347,650**
Operating lease commitments			
Not later than 1 year	5,040	7,016	6,281
Later than 1 year but not later than 5 years	9,979	13,984	13,396
Later than 5 years	3,122	6,037	6,497
	18,141	**27,037**	**26,174**
Capital expenditure commitments	**47,918**	**39,523**	**9,309**
Less – Cash held as security against letters of credit and guarantees (Note 20)	(24,353)	(20,336)	(56,758)
Less – Receivables related to letters of credit	(515)	–	–
Less – Provisions (Note 17)	(386)	(4,407)	(2,126)
Financial commitments and contingencies, net	**694,761**	**612,883**	**324,249**

As at 31 December 2011 the capital expenditures represented the commitment for purchase of property and capital repairs of GEL 41,119 and software and other intangible assets of GEL 6,799. As at 31 December 2010 the capital expenditures represented the commitment for purchase of property and capital repairs of GEL 32,311 and software and other intangible assets of GEL 7,212. As at 31 December 2009 the capital expenditures represented the commitment for purchase of property and capital repairs of GEL 1,512 and software and other intangible assets of GEL 7,797.

(Thousands of Georgian Lari)

23. Net Fee and Commission Income

	2011	*2010*	*2009*
Settlements operations	62,015	50,511	33,907
Guarantees and letters of credit	17,528	12,362	10,764
Cash operations	9,048	8,061	6,145
Advisory	1,668	1,129	578
Currency conversion operations	1,507	677	1,024
Brokerage service fees	1,033	545	1,891
Other	742	980	10,290
Fee and commission income	**93,541**	**74,265**	**64,599**
Settlements operations	(12,255)	(7,324)	(4,299)
Cash operations	(2,424)	(780)	(1,619)
Guarantees and letters of credit	(1,856)	(1,164)	(2,106)
Currency conversion operations	(550)	(14)	(28)
Insurance brokerage service fees	(543)	(646)	(534)
Other	(576)	(917)	(988)
Fee and commission expense	**(18,204)**	**(10,845)**	**(9,574)**
Net fee and commission income	**75,337**	**63,420**	**55,025**

24. Net Insurance Revenue

Net insurance premiums earned, net insurance claims incurred and respective net insurance revenue for the years ended 31 December 2011, 31 December 2010 and 31 December 2009 comprised:

	2011	*2010*	*2009*
Life insurance contracts premium written	2,200	2,562	2,865
General insurance contracts premium written	54,241	53,744	56,694
Total premiums written	**56,441**	**56,306**	**59,559**
Gross change in life provision	82	96	(377)
Gross change in general insurance contracts unearned premium provision	135	(1,001)	1,690
Total gross premiums earned on insurance contracts	**56,658**	**55,401**	**60,872**
Reinsurers' share of life insurance contracts premium written	(148)	(1,321)	(1,086)
Reinsurers' share of general insurance contracts premium written	(9,750)	(11,038)	(9,502)
Reinsurers' share of change in life provision	(183)	(57)	254
Reinsurers' share of change in general insurance contracts unearned premium provision	(181)	1,576	(5,061)
Total reinsurers' share of gross earned premiums on insurance contracts	**(10,262)**	**(10,840)**	**(15,395)**
Net insurance premiums earned	**46,396**	**44,561**	**45,477**

(Thousands of Georgian Lari)

24. Net Insurance Revenue (continued)

	2011	*2010*	*2009*
Life insurance claims paid	(465)	(1,272)	(830)
General insurance claims paid	(30,850)	(28,493)	(43,137)
Total insurance claims paid	**(31,315)**	**(29,765)**	**(43,967)**
Reinsurers' share of life insurance claims paid	428	988	523
Reinsurers' share of general insurance claims paid	1,186	1,497	12,356
Gross change in total reserves for claims	774	(1,486)	12,563
Reinsurers' share of change in total reserves for claims	269	868	(11,577)
Net insurance claims incurred	**(28,658)**	**(27,898)**	**(30,102)**
Net insurance revenue	**17,738**	**16,663**	**15,375**

25. Net Gains from Foreign Currency Translation Differences

Net gains from foreign currency translation differences for the year ended 31 December 2011 include GEL 25,056 thousand of net foreign currency gain from hedging the open currency position that the Group has on the Belarusian Ruble denominated stand-alone shareholders' equity of its subsidiary JSC Belarusky Narodny Bank. Devaluation of Belarusian Ruble depreciated Lari equivalent value of JSC Belarusky Narodny Bank shareholders' equity, loss from which has been recognized through other comprehensive income statement. However, the Bank had long position for the similar notional value of Belarusian Ruble held through currency swap agreement with the National Bank of the Republic of Belarus. Gain from revaluation of this position has been recognized through profit or loss.

26. Salaries and Other Employee Benefits, and General and Administrative Expenses

	2011	*2010*	*2009*
Salaries and bonuses	(117,703)	(103,352)	(96,745)
Social security costs	(1,408)	(1,199)	(3,760)
Salaries and other employee benefits	**(119,111)**	**(104,551)**	**(100,505)**
Marketing and advertising	(15,614)	(12,534)	(9,847)
Occupancy and rent	(9,396)	(10,082)	(10,431)
Repairs and maintenance	(6,330)	(6,205)	(5,313)
Legal and other professional services	(6,077)	(6,149)	(7,010)
Communication	(4,679)	(4,975)	(5,482)
Operating taxes	(4,464)	(4,188)	(4,960)
Office supplies	(3,350)	(3,786)	(2,484)
Travel expenses	(2,412)	(1,975)	(2,019)
Security	(2,061)	(3,055)	(4,647)
Corporate hospitality and entertainment	(1,889)	(1,709)	(1,307)
Banking services	(874)	(756)	(623)
Personnel training and recruitment	(733)	(416)	(177)
Penalties	(329)	(178)	(510)
Insurance	(232)	(678)	(399)
Other	(3,502)	(4,314)	(2,130)
General and administrative expenses	**(61,942)**	**(61,000)**	**(57,339)**

(Thousands of Georgian Lari)

26. Salaries and Other Employee Benefits, and General and Administrative Expenses (continued)

Salaries and bonuses include GEL 12,092, GEL 8,920 and GEL 10,530 of the Executives' Equity Compensation Plan costs for the years ended 31 December 2011, 31 December 2010 and 31 December 2009, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 30 and 34). Executives' Equity Compensation Plan costs for the year ended 31 December 2011 include GEL 2,906 of one-time correction of the respective withholding tax of prior years based on the new tax ruling obtained by the Bank from tax authorities in Georgia.

27. Gain from Hyperinflation

With the effect from 1 January 2011, the Belarusian economy has been considered to be hyperinflationary in accordance with the criteria in IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

In applying IAS 29, the Bank's subsidiaries in Belarus, JSC Belarusky Narodny Bank and BNB Leasing, LLC, have used conversion factors derived from the Belarusian consumer price index ("CPI"), published by the State Committee on Statistics of the Republic of Belarus. The CPIs for the six year period and respective conversion factors after Belarus previously ceased to be considered hyperinflationary on 1 January 2006 are as follows:

Year	Index, %	Conversion Factors
2006	106.6	320.8
2007	112.1	286.2
2008	113.3	252.6
2009	110.1	229.4
2010	109.9	208.7
2011	208.7	100.0

Monetary assets and liabilities are not recalculated because they are already expressed in terms of the monetary unit current as at 31 December 2011. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current as at 31 December 2011) are recalculated by applying the relevant index. The effect of inflation on the Bank's net non-monetary position is included in the income statement as a gain from hyperinflation and is equal to GEL 5,169 for the year ended 31 December 2011.

28. Other Non-operating Income and Other Non-operating Expenses

Other non-operating income for the year ended 31 December 2011 mostly comprises GEL 1,455 income from business combination of Block Georgia group of companies, of which GEL 955 is negative goodwill arising on acquisition and GEL 811 is income from penalties. Other non-operating income for the year ended 31 December 2009 of GEL 5,308, represents gain on repurchase of the Bank's own Euro Bonds.

Other non-operating expenses for the year ended 31 December 2011 mostly comprise GEL 6,431 (2010: GEL 545) loss incurred on repurchase of the Bank's own Euro Bonds, i.e. repurchase of amounts due to BG Finance, and GEL 6,722 of expenses incurred by the Group on seeking a premium listing on London Stock Exchange, respective incorporation of a new holding company in the United Kingdom and the Tender Offer process. For more information on premium listing and the Tender Offer, please, refer to Note 36.

29. Net Loss from Discontinued Operations

In February 2011 the Group declared actual disposal of its 80% equity interest in JSC BG Bank, its subsidiary in Ukraine.

The total consideration including brokerage fees paid to JSC BG Capital, the Bank's wholly owned brokerage subsidiary, amounted to US$9.6 million (GEL 16.8 million), of which US$5.0 million (GEL 8.9 million) has been paid as at the date of this announcement and the remaining US$4.6 million (GEL 8.2 million) is to be paid in 1.5 years from the disposal date.

The Bank retains 19.4% equity interest in PJSC Bank Pershyi (formerly known as JSC BG Bank).

(Thousands of Georgian Lari)

29. Net Loss from Discontinued Operations (continued)

Net loss from this disposal recognized in the consolidated income statement for the year through "Net loss from discontinued operations" is analyzed as follows:

	For the year ended 31 December 2011
Reclassification of foreign currency translation loss from devaluation of Ukrainian Hryvnia accumulated through other comprehensive income during prior years	(29,126)
Realized loss on disposal comprising net difference between the adjusted carrying value of the investment in 80% of JSC BG Bank as at the date of disposal and the fair value of respective consideration received	(5,550)
Impairment of part of the remaining receivables (Note 17)	(3,730)
Immediate corporate income tax benefit recognized from the statutory loss on disposal of 80% stake in JSC BG Bank (Note 16)	23,187
Net loss from discontinued operations	**(15,219)**
Earnings per share for discontinued operations:	
– basic loss per share from discontinued operations	(0.5095)
– diluted loss per share from discontinued operations	(0.4542)

Gain recognized in the statement of comprehensive income for the year through "Other comprehensive gain from discontinued operations" is analyzed as follows:

	For the year ended 31 December 2011
Revaluation reserve of property and equipment of the disposed subsidiary (Note 14)	(2,501)
Reclassification of foreign currency translation loss from depreciation of Ukrainian Hryvnia accumulated through other comprehensive income during prior years (Note 21)	29,126
Foreign currency translation loss from depreciation of Ukrainian Hryvnia during current year (Note 21)	(2,996)
Income tax relating to components of other comprehensive income (Note 16)	625
Other comprehensive gain from discontinued operations	**24,254**
Total comprehensive income for the year from discontinued operations	**9,035**

Total assets and total liabilities of JSC BG Bank as at 31 December 2010 and the results for the year ended 31 December 2011 and 31 December 2010 were as follows:

	As at 31 December 2010
Cash and cash equivalents	34,588
Total Assets	225,903
Total Liabilities	198,609
Net Assets	**27,294**

(Thousands of Georgian Lari)

29. Net Loss from Discontinued Operations (continued)

	For the years ended 31 December	
	2011	***2010***
Revenue	711	13,535
Other operating non-interest expenses	(994)	(16,602)
Loss for the year before income tax benefit	(138)	(6,992)
Income tax benefit	32	940
Loss for the year	(106)	(6,052)

Below is the consolidated income statement of the Group for the year ended 31 December 2011 with comparative information for 2010 and 2009 reclassified for discontinued operations.

	2011	***2010***	***2009***
Interest income			
Loans to customers	438,989	361,101	330,423
Investment securities – available-for-sale	37,701	6,819	–
Amounts due from credit institutions	18,103	9,494	4,546
Finance lease receivables	6,565	2,934	5,112
Investment securities – held-to-maturity	–	12,498	5,725
	501,358	**392,846**	**345,806**
Interest expense			
Amounts due to customers	(167,294)	(97,097)	(82,184)
Amounts due to credit institutions	(99,763)	(91,005)	(88,475)
	(267,057)	**(188,102)**	**(170,659)**
Net interest income before net gains (losses) from derivative financial instruments	**234,301**	**204,744**	**175,147**
Net gains (losses) from derivative financial instruments	4,984	(7,826)	(6,266)
Net interest income	**239,285**	**196,918**	**168,881**
Fee and commission income	93,541	72,171	62,219
Fee and commission expense	(18,204)	(10,043)	(9,087)
Net fee and commission income	**75,337**	**62,128**	**53,132**
Net insurance premiums earned	46,396	44,561	45,477
Net insurance claims incurred	(28,658)	(27,898)	(30,102)
Net insurance revenue	**17,738**	**16,663**	**15,375**
Net gains from trading securities and investment securities available-for-sale	1,382	2,006	2,676
Net gains (losses) from revaluation of investment properties	1,984	536	(4,087)
Net gains from foreign currencies:			
– dealing	45,694	32,893	23,264
– translation differences	30,747	98	3,138
Other operating income	29,052	21,856	11,850
Other operating non-interest income	**108,859**	**57,389**	**36,841**
Revenue	**441,219**	**333,098**	**274,229**
Salaries and other employee benefits	(119,111)	(94,642)	(87,491)
General and administrative expenses	(61,942)	(55,226)	(50,822)
Depreciation and amortization	(27,254)	(27,044)	(21,325)
Other operating expenses	(9,324)	(6,253)	(11,740)
Other operating non-interest expenses	**(217,631)**	**(183,165)**	**(171,378)**
Operating income before cost of credit risk	**223,588**	**149,933**	**102,851**

(Thousands of Georgian Lari)

29. Net Loss from Discontinued Operations (continued)

	2011	2010	2009
Operating income before cost of credit risk	**223,588**	**149,933**	**102,851**
Impairment charge on loans to customers	(23,216)	(40,197)	(83,925)
(Impairment charge) reversal of impairment on finance lease receivables	(317)	79	(1,008)
Impairment reversal (charge) on other assets and provisions	1,337	(3,655)	(5,692)
Cost of credit risk	**(22,196)**	**(43,773)**	**(90,625)**
Net operating income	**201,392**	**106,160**	**12,226**
Impairment charge on goodwill	(23,394)	–	(73,072)
Impairment charge on property and equipment	–	(435)	(3,200)
Total impairment of goodwill and property and equipment	**(23,394)**	**(435)**	**(76,272)**
Share of (loss) profit of associates	(487)	255	(2,649)
Gain from hyperinflation	5,169	–	–
Other non-operating income	2,903	–	5,308
Other non-operating expenses	(13,529)	(545)	–
Non-operating (expense) income	**(5,944)**	**(290)**	**2,659**
Profit (loss) before income tax (expense) benefit from continuing operations	**172,054**	**105,435**	**(61,387)**
Income tax expense	(21,125)	(16,716)	(2,540)
Profit (loss) for the year from continuing operations	**150,929**	**88,719**	**(63,927)**
Net loss from discontinued operations	(15,219)	(6,052)	(34,981)
Profit (loss) for the year	**135,710**	**82,667**	**(98,908)**
Attributable to:			
– shareholders of the Bank	132,531	83,640	(91,370)
– non-controlling interests	3,179	(973)	(7,538)
	135,710	**82,667**	**(98,908)**

Below are the net cash flows of JSC BG Bank for the year ended 31 December 2011 with comparative information for 2010.

	2011	2010
Net cash flows from operating activities	14,015	5,750
Net cash flows (used in) from investing activities	(2,495)	1,063
Effect of exchange rates changes on cash and cash equivalents	3	–
Net cash inflow	**11,523**	**6,813**

(Thousands of Georgian Lari)

30. Share-based Payments

Executives' Equity Compensation Plan

Abacus Corporate Trustee Limited (the "Trustee") acts as the trustee of the Bank's Executives' Equity Compensation Plan ("EECP").

In February 2009 the Bank's Supervisory Board resolved to recommend to the Trustee to award 306,500 Bank's ordinary shares in the form of restricted GDRs to the Group's 17 executives pursuant to the EECP in respect of the year ended 31 December 2008. The awards are subject to three year vesting, with a continuous employment being the only vesting condition. The Group considers 12 February 2009 as the grant date. The Bank estimates that the fair value of the shares on 12 February 2009 was Georgian Lari 5.02 per share.

In February 2010 the Bank's Supervisory Board resolved to recommend to the Trustee to award 432,495 Bank's ordinary shares in the form of restricted GDRs to the Group's 19 executives pursuant to the EECP in respect of the year ended 31 December 2009. The awards are subject to three year vesting, with a continuous employment being the only vesting condition. The Group considers 18 February 2010 as the grant date. The Bank estimates that the fair value of the shares on 18 February 2010 was Georgian Lari 17.29 per share.

Additionally, in March 2010 Deputies of the CEO of the Bank and in May 2010 CEO of the Bank signed a three-year guaranteed share-based compensation agreement with the Bank for the total of 915,000 GDRs. Total amount of GDRs guaranteed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2011, of which each award will be subject to four-year vesting period. The Group considers 29 March 2010 as the grant date for the awards of the Deputies and 25 May 2010 as the grant date for the award of the CEO. The Bank estimates that the fair value of the shares on 29 March 2010 was Georgian Lari 18.48 per share and the fair value of shares on 25 May 2010 was Georgian Lari 18.16.

In February 2011 the Supervisory Board resolve to award 143,500 ordinary shares in the form of GDRs to the members of the Management Board and 123,800 ordinary shares in the form of GDRs to the Groups' 24 executives. Shares awarded to the Management Board are subject to three-year vesting, while shares awarded to the other 24 executives are subject to three vesting, with a continuous employment being the only vesting condition for both awards. The Group considers 21 February 2011 as the grant date. The Bank estimates that the fair value of the shares on 21 February 2011 was Georgian Lari 35.86 per share.

One-off Award

In August 2009 the Bank's Supervisory Board resolved to buy through its brokerage subsidiary the Bank's 420,000 ordinary shares in the form of restricted GDRs and award them to the Group's 21 executives to reinforce long-term motivation of these executives. The awards are subject to three year cliff-vesting, with a continuous employment being the only vesting condition. The Group considers 10 August 2009 as the grant date. The Bank estimates that the fair value of the shares on 10 August 2009 was Georgian Lari 9.61 per share.

Top Grant, Special Grant and Annual Grants to top executives

In August 2007 the Bank's Supervisory Board resolved to propose to the Trustee of the Bank's EECP the award of shares of the Bank in the form of restricted GDRs to the top three executives of the Bank (top two from January 1, 2008 as one resigned before 31 December 2007). Each award will vest fully, or partially, or will not vest at all, at the third anniversary of the date of the grant, depending solely on clearly defined and measurable market-based condition. The awards of each executive comprise top grant and annual grant.

Top grant is a one-time award and was given in 2007 only and its value is restricted by the 200% of the annual base salary of the respective executive in 2007. Annual grant is awarded every year during the three consecutive years' period that such executive is employed by the Bank. In 2007 its value was restricted by 100% of the annual base salary of the respective executive during the vesting period. Based on the changes approved by the Bank's Supervisory Board, the value of the annual grant in 2008 was restricted by the 200%.

The Bank estimated the annual expense of share-based compensation related to 2007 top and annual grants equal 300% of the annual base salary of each executive in 2007.

Based on the Bank's share price performance calculated by an independent consultant the Bank estimated the annual expense of share-based compensation related to 2008 annual grant equals to nil.

(Thousands of Georgian Lari)

30. Share-based Payments (continued)

Top Grant, Special Grant and Annual Grants to top executives (continued)

In September 2009 the Bank's Supervisory Board resolved to adopt changes to the original version of the annual grant approved in August 2007. Namely, the 2009 Annual Grant comprising 245,773 GDRs was granted to the two top executives of the Bank without market-based vesting conditions, with continuous employment being the only 3-year, cliff-vesting condition. The Group considers 11 September 2009 as the grant date. The Bank estimates that the fair value of the shares on 11 September 2009 was Georgian Lari 12.83 per share.

By the same resolution, in September 2009, the Bank's Supervisory Board resolved to award a Special Grant to the same two executives comprising 68,139 GDRs. The award is subject to two year vesting, with a continuous employment being the only vesting condition. The Group considers 11 September 2009 as the grant date. The Bank estimates that the fair value of the shares on 11 September 2009 was Georgian Lari 12.83 per share.

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 32.94 per share in year ended 31 December 2011 (31 December 2010: Georgian Lari 17.96 per share, 31 December 2009: Georgian Lari 9.46).

The Group's total share-based payment expenses for the year ended 31 December 2011 comprised GEL 12,092 (31 December 2010: GEL 8,920, 31 December 2009: 10,530) and are included in "salaries and other employee benefits", as "salaries and bonuses".

Below is the summary of the key share-based payments related data:

Ordinary shares	***2011***	***2010***	***2009***
Number of shares awarded	32,687	38,789	128,908
– Among them, to supervisory board members	*32,687*	*38,789*	*55,158*
Number of shares vested	32,687	38,789	52,788
Weighted average value at grant date, per share (GEL in full amount)	22.61	17.20	9.04
Value at grant date, total (GEL)	**739**	**667**	**1,165**
Expense recognized during the year (GEL)	**(739)**	**(667)**	**(1,390)**
GDRs			
Number of GDRs awarded	300,897	1,341,918	1,130,412
*– Among them, to top management**	*20,000*	*461,922*	*463,912*
Number of GDRs vested	148,429	610,000	153,000
Weighted average value at grant date, per share (GEL in full amount)	34.06	17.99	9.51
Value at grant date, total (GEL)	**10,250**	**24,135**	**10,747**
Expense recognized during the year (GEL)	**(11,353)**	**(8,253)**	**(9,140)**
All instruments			
Total number of equity instruments awarded	333,584	1,380,707	1,259,320
– Among them, to top management and supervisory board members*	*52,687*	*500,711*	*519,070*
Total number of equity instruments vested	181,116	648,789	205,788
Weighted average value at grant date, per share (GEL in full amount)	32.94	17.96	9.46
Value at grant date, total (GEL)	**10,989**	**24,802**	**11,912**
Total expense recognized during the year (GEL) (Notes 26 and 34)	**(12,092)**	**(8,920)**	**(10,530)**

*** The Chairman and the Chief Executive Officer for the periods prior to 1 January 2011 and the Chief Executive Officer only since 1 January 2011.**

(Thousands of Georgian Lari)

31. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

Supervisory Board
The Supervisory Board is ultimately responsible for overall supervision of all risks and respective strategic decisions as well as for the ultimate approval process of main risk management policies and strategies.

Audit Committee
The Audit Committee is an independent body and is directly monitored by the Supervisory Board. It has the overall responsibility for developing and implementation of overall risk assessment and risk mitigation strategies, principles, frameworks, policies and limits. Audit Committee is responsible for the fundamental risk issues and manages and monitors relevant risk decisions covering, but not limited to: macroeconomic and environmental risks, general control environment, manual and application controls, risks of intentionally or unintentional misstatements, risk of fraud or misappropriation of assets, information security, anti-money laundering, information technology risks, etc.

Management Board
The Management Board has the responsibility to monitor and manage entire risk process within the Group, on a regular basis, by assigning tasks, creating different executive committees, designing and setting up risk management policies and procedures as well as respective guidelines and controlling their implementation and performance of relevant departments and committees.

Bank Asset and Liability Management Committee
The Bank's Asset and Liability Management Committee ("ALCO") is the core risk management body. It is responsible for managing the Bank's assets and liabilities, all risks associated with them as well as overall financial structure of the Group. It is also primarily responsible for the funding, capital adequacy risk, liquidity risks and market risks of the Bank.

Internal Audit
Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is Base Case (forecast under normal business conditions) and the other two are Troubled and Distressed Scenarios, which are worse and the worst case scenarios, respectively, that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate credit exposures and their limits, exceptions to those limits, liquidity ratios and liquidity limits, market risk ratios and their limits, changes to the risk profile. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Management Board receives comprehensive Credit Risk report and ALCO report once a month. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

(Thousands of Georgian Lari)

31. Risk Management (continued)

Introduction (continued)

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. While these are intended for hedging, these do not qualify for hedge accounting.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or these counterparties represent related parties to each other, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio of both, financial assets as well as financial liabilities. Identified concentrations of credit risks or liquidity / repayment risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position

(Thousands of Georgian Lari)

31. Risk Management (continued)

Credit risk (continued)
Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

		Gross maximum exposure		
	Notes	***2011***	***2010***	***2009***
Cash and cash equivalents (excluding cash on hand)	7	465,730	449,835	203,028
Amounts due from credit institutions	8	289,530	116,469	64,620
Loans to customers	9	2,553,442	2,351,697	1,661,331
Finance lease receivables	10	62,919	14,419	16,896
Debt investment securities:				
– Available-for-sale	11	408,075	285,628	6,990
– Held-to-maturity	11	–	21	249,196
Other assets – derivative financial assets	18	36,823	2,933	1,129
		3,816,519	**3,221,002**	**2,203,190**
Financial commitments and contingencies	22	628,702	546,323	288,766
Total credit risk exposure		**4,445,221**	**3,767,325**	**2,491,956**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group through internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Group's credit rating system.

		Neither past due nor impaired				
31 December 2011	***Notes***	***High grade***	***Standard grade***	***Sub-standard grade***	***Past due or individually impaired***	***Total***
Amounts due from credit institutions	8	289,530	–	–	–	289,530
Loans to customers:	9					
Corporate lending		1,030,959	75,009	37,888	219,202	1,363,058
Residential mortgages		344,593	12,872	1,477	32,055	390,997
Consumer lending		469,374	13,517	1,224	32,618	516,733
Micro loans		306,124	5,031	1,494	5,917	318,566
Gold – pawn loans		78,785	–	–	–	78,785
		2,229,835	**106,429**	**42,083**	**289,792**	**2,668,139**
Finance lease receivables	10	57,647	4,222	913	577	63,359
Debt investment securities:						
Available-for-sale	11	408,075	–	–	–	408,075
		408,075	**–**	**–**	**–**	**408,075**
Total		**2,985,087**	**110,651**	**42,996**	**290,369**	**3,429,103**

(Thousands of Georgian Lari)

31. Risk Management (continued)

Credit risk (continued)

31 December 2010	Notes	Neither past due nor impaired: High grade	Neither past due nor impaired: Standard grade	Neither past due nor impaired: Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	115,622	847	–	–	116,469
Loans to customers:	9					
Corporate lending		924,320	254,675	42,449	203,106	1,424,550
Residential mortgages		334,430	13,841	703	34,641	383,615
Consumer lending		324,474	13,889	9,251	62,172	409,786
Micro loans		220,820	4,317	3,636	9,689	238,462
Gold – pawn loans		66,749	–	–	–	66,749
Other		2,168	696	7	1,200	4,071
		1,872,961	**287,418**	**56,046**	**310,808**	**2,527,233**
Finance lease receivables	10	10,533	311	872	3,291	15,007
Debt investment securities:						
Available-for-sale	11	285,628	–	–	–	285,628
Held-to-maturity	11	21	–	–	–	21
		285,649	**–**	**–**	**–**	**285,649**
Total		**2,284,765**	**288,576**	**56,918**	**314,099**	**2,944,358**

31 December 2009	Notes	Neither past due nor impaired: High grade	Neither past due nor impaired: Standard grade	Neither past due nor impaired: Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	63,703	917	–	–	64,620
Loans to customers:	9					
Corporate lending		447,481	122,983	94,215	275,135	939,814
Residential mortgages		267,593	26,133	9,772	83,917	387,415
Consumer lending		227,765	26,748	1,915	76,109	332,537
Micro loans		76,003	9,506	6,884	7,588	99,981
Gold – pawn loans		62,829	–	–	–	62,829
Other		–	3,221	352	1,668	5,241
		1,081,671	**188,591**	**113,138**	**444,417**	**1,827,817**
Finance lease receivables	10	7,913	11,441	115	4,571	24,040
Debt investment securities:						
Available-for-sale	11	6,172	–	–	818	6,990
Held-to-maturity	11	249,196	–	–	–	249,196
		255,368	**–**	**–**	**818**	**256,186**
Total		**1,408,655**	**200,949**	**113,253**	**449,806**	**2,172,663**

Past due loans to customers, analyzed by age below, include those that are past due by not more than a few days. These loans are not impaired.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. Attributable risk ratings are assessed and updated regularly.

The credit risk assessment policy for non-past due and individually non-impaired financial assets has been determined by the Bank as follows:

(Thousands of Georgian Lari)

31. Risk Management (continued)

Credit risk (continued)

A financial asset that is neither past due nor impaired for the reporting date, but historically used to be past due more less than 30 days is assessed as a financial asset with High Grade;

A financial asset that is neither past due nor impaired for reporting date, but historically used to be past due more than 30 but less than 60 days is assessed as a financial asset with Standard Grade;

A financial asset that is neither past due nor impaired for reporting date, but historically used to be past due more than 60 days or borrower of this loan has at least an additional borrowing in past due more than 60 days as at reporting date is assessed as a financial asset with Sub-Standard Grade.

Aging analysis of past due but not impaired loans per class of financial assets

31 December 2011	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Consumer lending	17,399	24	–	–	17,423
Residential mortgages	8,345	645	56	1,300	10,346
Corporate lending	2,124	48	–	11,000	13,172
Micro-loans	425	–	–	–	425
Finance lease receivables	332	47	–	43	422
Total	**28,625**	**764**	**56**	**12,343**	**41,788**

31 December 2010	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Consumer lending	12,538	11	3	93	12,645
Residential mortgages	6,967	1,387	275	1,956	10,585
Corporate lending	2,925	–	2,115	5,290	10,330
Micro-loans	503	6	128	–	637
Other	–	144	84	–	228
Finance lease receivables	1,212	–	–	2,079	3,291
Total	**24,145**	**1,548**	**2,605**	**9,418**	**37,716**

31 December 2009	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Consumer lending	14,259	58	–	4	14,321
Corporate lending	12,057	1,124	2,841	28,509	44,531
Residential mortgages	3,502	57	–	16	3,575
Micro-loans	615	4	–	9	628
Other					
Finance lease receivables	1,461	9	–	–	1,470
Total	**31,894**	**1,252**	**2,841**	**28,538**	**64,525**

See Notes 9 and 10 for more detailed information with respect to the allowance for impairment of loans to customers and finance lease receivables, respectively.

The Group specifically monitors performance of the loans with overdue payments in arrears for more than 90 days. Gross carrying value (i.e. carrying value before deducting any allowance for impairment) of such loans comprised GEL 87,836, GEL 117,580 and GEL 139,954 as at 31 December 2011, 31 December 2010 and 31 December 2009, respectively.

(Thousands of Georgian Lari)

31. Risk Management (continued)

Credit risk (continued)

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2011	*2010*	*2009*
Loans to customers:			
Commercial lending	108,730	263,163	473,845
Residential mortgages	7,453	4,386	38,137
Micro loans	1,814	4,664	7,540
Consumer lending	960	2,092	26,624
Other	–	–	11
Financial lease receivables	–	1,882	2,349
Total	**118,957**	**276,187**	**548,506**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by any number of days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. Loans are considered to be individually impaired if they are past due by more than only a few days or there are clear indications that the borrower already faces business, financial or other type of problems that hinder its / his /her ability to serve contractual obligations with the Bank. Impairment for all such loans is assessed individually, rather than applying standard collective impairment rates based on just prior history of losses of the Bank.

Individually assessed allowances

For the loan loss allowance determination purposes the Group considers all individually significant loans and classifies them between being individually impaired or not impaired. Allowance for those individually significant loans that are determined to be individually impaired (see definition above) is determined through individual assessment of the associated credit risk by assigning proper credit rating. Allowance non-significant loan that are determined to be individually impaired (see definition above) are also individually assessed. Allowance for losses for individually significant loans that are determined not to be individually impaired is assessed through collective assessment approach described below. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, the timing of the expected cash flows and past history of the debt service of the borrower. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for all loans (including but not limited to credit cards, residential mortgages, and unsecured consumer lending, commercial lending, etc.), both, significant as well as non-significant, where there is not yet objective evidence of individual impairment (see definition above) . Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes into account the impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year, depending on a product. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

(Thousands of Georgian Lari)

31. Risk Management (continued)

Credit risk (continued)

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

	2011			
	Georgia	OECD	CIS and other foreign countries	Total
Assets:				
Cash and cash equivalents	312,697	301,166	14,868	628,731
Amounts due from credit institutions	282,353	387	6,790	289,530
Loans to customers	2,508,545	–	44,897	2,553,442
Finance lease receivables	59,479	–	3,440	62,919
Investment securities:				
– available-for-sale	419,555	–	21	419,576
All other assets	691,047	253	19,763	711,063
	4,273,676	**301,806**	**89,779**	**4,665,261**
Liabilities:				
Amounts due to customers	2,514,541	108,337	112,344	2,735,222
Amounts due to credit institutions	42,761	788,067	90,344	921,172
All other liabilities	193,198	–	3,066	196,264
	2,750,500	**896,404**	**205,754**	**3,852,658**
Net balance sheet position	**1,523,176**	**(594,598)**	**(115,975)**	**812,603**

	2010				2009			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	188,426	364,616	58,542	611,584	154,405	127,816	75,668	357,889
Amounts due from credit institutions	91,715	14,538	10,216	116,469	39,447	12,664	12,509	64,620
Loans to customers	2,135,962	8	215,727	2,351,697	1,520,174	–	141,157	1,661,331
Finance lease receivables	10,036	–	4,383	14,419	8,927	–	7,969	16,896
Investment securities:								
– available-for-sale	290,333	60	4,547	294,940	13,418	–	6,172	19,590
– held-to-maturity	21	–	–	21	249,196	–	–	249,196
All other assets	498,175	9,508	108,109	615,792	455,769	8,056	80,082	543,907
	3,214,668	**388,730**	**401,524**	**4,004,922**	**2,441,336**	**148,536**	**323,557**	**2,913,429**
Liabilities:								
Amounts due to customers	1,659,774	101,960	264,574	2,026,308	1,024,771	11,035	237,324	1,273,130
Amounts due to credit institutions	145,398	962,691	30,838	1,138,927	20,102	899,651	8,862	928,615
All other liabilities	135,794	4,232	6,320	146,346	85,588	8,958	18,721	113,267
	1,940,966	**1,068,883**	**301,732**	**3,311,581**	**1,130,461**	**919,644**	**264,907**	**2,315,012**
Net balance sheet position	**1,273,702**	**(680,153)**	**99,792**	**693,341**	**1,310,875**	**(771,108)**	**58,650**	**598,417**

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a stand-alone basis, based on certain liquidity ratios established by the NBG. As at 31 December these ratios were as follows:

(Thousands of Georgian Lari)

31. Risk Management (continued)

Liquidity risk and funding management (continued)

	2011, %	*2010, %*	*2009, %*
Average liquidity ratio	36.9%	35.6%	36.5%
Maximum Liquidity ratio	47.2%	44.5%	45.7%
Minimum Liquidity ratio	29.6%	29.1%	21.9%

Average liquidity ratio is calculated on stand-alone basis for JSC Bank of Georgia as annual average (arithmetic mean) of daily liquidity ratios computed as ratio of liquid assets to liabilities determined by National Bank of Georgia as follows:

Liquid assets – comprise cash, cash equivalents and other assets that have character to be immediately converted into cash. Those assets include investment securities issued by Georgian Government plus Certificates of Deposit issued by NBG and not including amounts due from credit institutions, other than inter-bank deposits, and/or debt securities of Governments and Central Banks of non-OECD countries, amounts in nostro accounts which are under lien, impaired inter-bank deposits, amounts on obligatory reserve with NBG that are pledged due to borrowings from NBG.

Liabilities – comprise sum of total balance sheet liabilities, less Amounts due to credit institutions that are to be exercised or settled later than six month from reporting date, plus off-balance sheet commitments with residual maturity subsequent to the reporting date of less than six months. Off-balance sheet commitments include all commitments except financial guarantees and letters of credit that are fully collateralized by cash covers in the Bank, and commitments due to dealing operations with foreign currencies. Maximum and minimum rates of liquidity ratio are taken from historical data of appropriate reporting years.

The Group also manages maturity matching of financial assets and financial liabilities and imposes a maximum limit on negative gaps compared to the Bank's stand-alone total regulatory capital calculated per NBG regulation. The ratios are assessed and monitored on a monthly basis and compared against set limits. In case of deviations amendment strategies / actions are discussed and approved by ALCO.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment 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 Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 31 December 2011	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	1,908,942	654,219	236,243	13,543	2,812,947
Amounts due to credit institutions	195,670	122,709	499,370	434,038	1,251,787
Other liabilities	26,926	53,099	19,783	–	99,808
Total undiscounted financial liabilities	**2,131,538**	**830,027**	**755,396**	**447,581**	**4,164,542**

Financial liabilities As at 31 December 2010	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	1,394,442	528,346	153,963	8,859	2,085,610
Amounts due to credit institutions	151,404	145,753	780,504	530,547	1,608,208
Other liabilities	8,049	33,571	15,649	4,949	62,218
Total undiscounted financial liabilities	**1,553,895**	**707,670**	**950,116**	**544,355**	**3,756,036**

Financial liabilities As at 31 December 2009	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	899,697	333,374	83,097	7,624	1,323,792
Amounts due to credit institutions	76,468	86,724	726,243	511,713	1,401,148
Other liabilities	18,079	22,921	7,468	3,856	52,324
Total undiscounted financial liabilities	**994,244**	**443,019**	**816,808**	**523,193**	**2,777,264**

(Thousands of Georgian Lari)

31. Risk Management (continued)

Liquidity risk and funding management (continued)

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
31 December 2011	335,550	267,617	103,870	12,978	720,015
31 December 2010	245,684	290,662	76,464	24,816	637,626
31 December 2009	98,735	108,050	149,063	27,285	383,133

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The maturity analysis 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.

Included in due to customers are term deposits of individuals. In accordance with the Georgian legislation, the Bank Group is obliged to repay such deposits upon demand of a depositor. Refer to Note 20.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using sensitivity analysis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2011. During the year ended 31 December 2011, year ended 31 December 2010 and year ended 31 December 2009, sensitivity analysis did not reveal significant potential effect on the Group's equity.

Currency	*Increase in basis points 2011*	*Sensitivity of net interest income 2011*	*Sensitivity of other comprehensive income 2011*
GEL	0.42%	101	–
USD	0.02%	51	–

Currency	*Decrease in basis points 2011*	*Sensitivity of net interest income 2011*	*Sensitivity of other comprehensive income 2011*
GEL	-0.42%	(101)	–
USD	-0.02%	(51)	–

(Thousands of Georgian Lari)

31. Risk Management (continued)

Market risk (continued)

Currency	*Increase in basis points 2010*	*Sensitivity of net interest income 2010*	*Sensitivity of other comprehensive income 2010*
EUR	0.01%	1	–
USD	0.00%	46	–
UAH	0.75%	–	34

Currency	*Decrease in basis points 2010*	*Sensitivity of net interest income 2010*	*Sensitivity of other comprehensive income 2010*
EUR	-0.01%	(1)	–
USD	-0.00%	(46)	–
UAH	-0.75%	–	(34)

Currency	*Increase in basis points 2009*	*Sensitivity of net interest income 2009*	*Sensitivity of other comprehensive income 2009*
EUR	0.10%	2	–
USD	0.10%	186	–
UAH	0.75%	–	52

Currency	*Decrease in basis points 2009*	*Sensitivity of net interest income 2009*	*Sensitivity of other comprehensive income 2009*
EUR	-0.10%	(2)	–
USD	-0.10%	(186)	–
UAH	-0.75%	–	(52)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2011 on its trading and non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended 31 December 2011, year ended 31 December 2010 and year ended 31 December 2009, sensitivity analysis did not reveal significant potential effect on Group's equity.

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Effect on other comprehensive income*	*Change in currency rate in %*	*Effect on profit before tax*	*Effect on other comprehensive income*	*Change in currency rate in %*	*Effect on profit before tax*	*Effect on other comprehensive income*
		2011			*2010*			*2009*	
EUR	4.4%	2,392	–	0.8%	234	–	12.7%	(3,792)	–
GBP	3.2%	13	–	0.8%	1	–	16.1%	63	–
RUR	5.1%	25	–	0.7%	3	–	0.3%	(1)	–
UAH	1.3%	1	–	0.3%	–	91	0.3%	–	228
USD	1.3%	1,927	–	0.3%	323	–	1.3%	(669)	–
CHF	4.6%	1,710	–	–	–	–	–	–	–
AZN	1.3%	2	–	–	–	–	–	–	–
TRY	5.1%	17	–	–	–	–	–	–	–
BYR	23.6%	150	–	–	–	–	–	–	–

(Thousands of Georgian Lari)

31. Risk Management (continued)

Market risk (continued)

The Group also monitors foreign currency Value-at-Risk exposures and sets limits on the back of the NBG total regulatory capital. Actual VaR and limits are checked and assessed on a monthly basis by ALCO.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar or whatever reasons.

The Group observes prior history of early repayments by calculating weighted average rate of early repayments across each credit product, individually, applying these historical rates to the outstanding carrying amount of each loan product as at the reporting date and by further multiplying the product by the weighted average effective annual interest rates per each product. Sum of the products is determined a the expected amount of unforeseen losses in case of early repayments that the Bank is exposed as at the reporting date. The model does not make a distinction between different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties, as the Bank's income.

Estimated effect of prepayment risk on profit and equity of the Group for the year ended 31 December is as follows:

	Effect on net interest income	*Effect on other comprehensive income*
2011	(5,416)	–
2010	(67,605)	–
2009	(14,557)	–

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Operating environment

As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside of the country and undeveloped debt and equity markets). However over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In management's view, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

(Thousands of Georgian Lari)

32. 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 31 December 2011*
Financial assets				
Investment securities – available-for-sale	346	415,196	4,034	419,576
Other assets – derivative financial assets	63	36,760	–	36,823
Other assets – trading securities owned	1,115	–	–	1,115
	1,524	**451,956**	**4,034**	**457,514**
Financial liabilities				
Other liabilities – derivative financial liabilities	5,925	9,931	–	15,856
	5,925	**9,931**	**–**	**15,856**

	Level 1	*Level 2*	*Level 3*	*Total 31 December 2010*
Financial assets				
Investment securities – available-for-sale	4,958	284,573	5,409	294,940
Other assets – derivative financial assets	2,250	683	–	2,933
Other assets – trading securities owned	1,218	–	–	1,218
	8,426	**285,256**	**5,409**	**299,091**
Financial liabilities				
Other liabilities – derivative financial liabilities	2,211	15,314	–	17,525
	2,211	**15,314**	**–**	**17,525**

	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**

(Thousands of Georgian Lari)

32. Fair Values of Financial Instruments (continued)

Financial instruments recorded at fair value (continued)

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 tables show a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2009	*Transfer from other assets*	*At 1 January 2010*	*Purchase of AFS securities*	*At 31 December 2010*	*Sale of AFS securities*	*At 31 December 2011*
Financial assets							
Investment securities – available-for-sale	–	4,265	4,265	1,144	5,409	(1,375)	4,034
Total level 3 financial assets	**–**	**4,265**	**4,265**	**1,144**	**5,409**	**(1,375)**	**4,034**
Total net level 3 financial assets	**–**	**4,265**	**4,265**	**1,144**	**5,409**	**(1,375)**	**4,034**

No financial instruments were transferred during year ended 31 December 2011 from level 1 and level 2 to level 3 of the fair value hierarchy. Gains or losses on level 3 financial instruments during year ended 31 December 2011 comprised nil.

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*	*Carrying amount*	*Effect of reasonably possible alternative assumptions*
	2011		*2010*		*2009*	
Financial assets						
Investment securities – available-for-sale	4,034	+/- 607	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.

(Thousands of Georgian Lari)

32. Fair Values of Financial Instruments (continued)

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.

	Carrying value 2011	*Fair value 2011*	*Unrecognised loss 2011*
Financial assets			
Cash and cash equivalents	628,731	628,731	–
Amounts due from credit institutions	289,530	289,530	–
Loans to customers	2,553,442	2,546,648	(6,794)
Finance lease receivables	62,919	62,919	–
Financial liabilities			
Amounts due to customers	2,735,222	2,758,210	(22,988)
Amounts due to credit institutions	921,172	921,172	–
Total unrecognised change in unrealised fair value			**(29,782)**

	Carrying value 2010	*Fair value 2010*	*Unrecognised gain (loss) 2010*	*Carrying value 2009*	*Fair value 2009*	*Unrecognised loss 2009*
Financial assets						
Cash and cash equivalents	611,584	611,584	–	357,889	357,889	–
Amounts due from credit institutions	116,469	116,469	–	64,620	64,620	–
Loans to customers	2,351,697	2,319,388	(32,309)	1,661,331	1,621,779	(39,552)
Finance lease receivables	14,419	14,419	–	16,896	16,896	–
Investment securities:						
– held-to-maturity	21	21	–	249,196	249,196	–
Financial liabilities						
Amounts due to customers	2,026,308	2,041,403	(15,095)	1,273,130	1,271,958	1,172
Amounts due to credit institutions	1,138,927	1,138,927	–	928,615	928,615	–
Total unrecognised change in unrealised fair value			**(47,404)**			**(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.

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 demand deposits, savings accounts without a 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.

(Thousands of Georgian Lari)

33. 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. See Note 31 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2011		
	Within one year	*More than one year*	*Total*
Financial assets			
Cash and cash equivalents	628,731	–	628,731
Amounts due from credit institutions	277,448	12,082	289,530
Loans to customers	1,231,077	1,322,365	2,553,442
Finance lease receivables	16,767	46,152	62,919
Investment securities:			
– available–for–sale	340,179	79,397	419,576
Total	**2,494,202**	**1,459,996**	**3,954,198**
Financial liabilities			
Amounts due to customers	2,536,761	198,461	2,735,222
Amounts due to credit institutions	265,121	656,051	921,172
Total	**2,801,882**	**854,512**	**3,656,394**
Net	**(307,680)**	**605,484**	**297,804**

	2010			2009		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Financial assets						
Cash and cash equivalents	611,584	–	611,584	357,889	–	357,889
Amounts due from credit institutions	107,707	8,762	116,469	60,121	4,499	64,620
Loans to customers	1,191,914	1,159,783	2,351,697	655,906	1,005,425	1,661,331
Finance lease receivables	8,828	5,591	14,419	12,466	4,430	16,896
Investment securities:						
– available–for–sale	242,535	52,405	294,940	19,590	–	19,590
– held–to–maturity	21	–	21	249,196	–	249,196
Total	**2,162,589**	**1,226,541**	**3,389,130**	**1,355,168**	**1,014,354**	**2,369,522**
Financial liabilities						
Amounts due to customers	1,881,371	144,937	2,026,308	1,198,357	74,773	1,273,130
Amounts due to credit institutions	193,386	945,541	1,138,927	37,866	890,749	928,615
Total	**2,074,757**	**1,090,478**	**3,165,235**	**1,236,223**	**965,522**	**2,201,745**
Net	**87,832**	**136,063**	**223,895**	**118,945**	**48,832**	**167,777**

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)

33. 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 at 31 December 2011 amounts due to customers amounted to GEL 2,735,222 (2010: GEL 2,026,308, 2009: GEL 1,273,130) and represented 71% (2010: 61%, 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 at 31 December 2011 amounts owed to credit institutions amounted to GEL 921,172 (2010: GEL 1,138,927, 2009: GEL 928,615) and represented 24% (2010: 34%, 2009: 40%) of total liabilities.

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

34. 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. All translations with related parties disclosed below have been conducted on an arm's length basis.

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	2011			*2010*			*2009*		
	Parent	*Asso-ciates**	*Key management personnel*	*Parent*	*Asso-ciates*	*Key management personnel*	*Parent*	*Asso-ciates*	*Key management personnel*
Loans outstanding at 1 January, gross	**–**	**2,191**	**4,758**	**–**	**9,255**	**5,791**	**265**	**21,644**	**5,572**
Loans issued during the year	–	954	7,951	–	624	7,125	–	7,736	5,616
Loan repayments during the year	–	(5,493)	(6,663)	–	(707)	(6,877)	(265)	(10,322)	(8,633)
Other movements	–	2,652	512	–	(6,981)	(1,281)	–	(9,803)	3,236
Loans outstanding at 31 December, gross	**–**	**304**	**6,558**	**–**	**2,191**	**4,758**	**–**	**9,255**	**5,791**
Less: allowance for impairment at 31 December	–	2	115	–	(1,564)	(119)	–	(870)	(212)
Loans outstanding at 31 December, net	**–**	**306**	**6,673**	**–**	**627**	**4,639**	**–**	**8,385**	**5,579**
Interest income on loans	–	870	718	–	344	611	–	1,250	799
Loan impairment charge	–	2	32	–	661	65	–	594	(92)
Deposits at 1 January	**36,410**	**726**	**8,999**	**12,098**	**506**	**6,919**	**12,733**	**177**	**18,324**
Deposits received during the year	35,365	24,660	21,574	41,646	16,185	36,658	–	27,989	42,908
Deposits repaid during the year	(32,147)	(25,229)	(22,254)	(16,851)	(16,127)	(33,522)	(635)	(27,792)	(54,647)
Other movements	(2,898)	14	(2,416)	(483)	162	(1,056)	–	132	334
Deposits at 31 December	**36,730**	**171**	**5,903**	**36,410**	**726**	**8,999**	**12,098**	**506**	**6,919**
Interest expense on deposits	3,019	33	441	1,681	68	471	–	5	425
Other income	693	–	78	1,671	–	69	437	–	35

***** During the year ended 31 December 2011 loans to two legal entities, controlling stakes of which were owned by a member of the Bank's Management Board and a member of the Bank's Supervisory Board, were outstanding. A total of GEL 775 interest income was recognized on these loans in the consolidated income statement for the year ended 31 December 2011. GEL 36 gross loan remains outstanding as at 31 December 2011.**

(Thousands of Georgian Lari)

34. Related Party Disclosures (continued)

Compensation of key management personnel was comprised of the following:

	2011	2010	2009
Salaries and other benefits	17,573	20,530	17,833
– Among them, termination benefits	*422*	*426*	*759*
Share-based payments compensation (Notes 26 and 30)	12,092	8,920	10,530
– Among them, termination benefits	–	*1,183*	*2,178*
Social security costs	206	441	256
Total key management compensation	**29,871**	**29,891**	**28,619**

The number of key management personnel at 31 December 2011 was 169 (31 December 2010: 163, 31 December 2009: 151).

35. 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 year ended 31 December 2011, 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 at 31 December 2011, 31 December 2010 and 31 December 2009 the Bank's capital adequacy ratio on this basis was as follows:

	2011	***2010***	***2009***
Core capital	512,238	494,128	535,427
Supplementary capital	463,825	423,389	269,729
Less: Deductions from capital	(184,323)	(367,418)	(347,853)
Total regulatory capital	**791,740**	**550,099**	**457,303**
Risk-weighted assets	**4,872,931**	**3,800,624**	**2,717,084**
Total capital adequacy ratio	**16.2%**	**14.5%**	**16.8%**

Regulatory capital consists of Core capital, which comprises share, 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)

35. Capital Adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on 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 at 31 December 2011, 31 December 2010 and 31 December 2009, follows:

	2011	*2010*	*2009*
Tier 1 capital	764,377	637,971	548,710
Tier 2 capital	380,301	404,788	369,480
Less: Deductions from capital	(49,341)	(70,722)	(67,454)
Total capital	**1,095,337**	**972,037**	**850,736**
Risk-weighted assets	**3,839,462**	**3,653,247**	**2,454,763**
Total capital ratio	28.5%	26.6%	34.7%
Tier 1 capital ratio	19.9%	17.5%	22.4%
Minimum capital adequacy ratio	**8%**	**8%**	**8%**

36. Event after the Reporting Period

On 24 February 2012 BGH announced that the EBRD and IFC have converted part of their respective loans to the Bank into Bank shares and accepted the Tender Offer with respect to such Bank shares (the "Loan Conversion"). Total nominal (contractual) amount of US$ 49,903,083 was converted into 3,635,006 newly issued ordinary shares of the Bank. After this conversion, Tier 1 and Total Capital adequacy ratios of the Bank, in accordance with NBG regulation, comprised 15.3% and 17.9% as of 29 February 2012, respectively.

On 28 February 2012 Bank of Georgia Holdings plc ("BGH") announced that: (i) all of the conditions for the successful completion of its tender offer (the "Tender Offer") to acquire the entire issued and to be issued share capital of the Bank were satisfied, or, where permitted, waived; (ii) that 35,909,383 BGH shares, as of 8:00am on 28 February 2012, were admitted to trading on the premium segment on the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc's Main Market for listed securities under the ticker BGEO.LN ("Admission"); and (iii) accordingly, the Tender Offer is unconditional in all respects. The Tender Offer expired on Friday, 24 February 2012 at 5:00 pm, London time. As described above, the EBRD and IFC converted part of their respective loans to the Bank into the Bank's shares and accepted the Tender Offer with respect to such shares of the Bank (the "Loan Conversion"). Valid acceptances of the Tender Offer were received in respect of 98.17 per cent (before the Loan Conversion) and 98.35 per cent (after the Loan Conversion) of the Bank's issued and outstanding share capital.

Reference is made to the issue of US$200,000,000 9.0 per cent Loan Participation Notes due 2012 (ISIN:XS0283756624; Common Code:028375662) (the "Notes") issued by BG Finance B.V. (the "Issuer") for the sole purpose of funding a loan (the "Loan") to the Bank pursuant to a loan agreement dated 6 February 2007 between the Issuer and the Bank (the "Loan Agreement"). In accordance with the terms and conditions of the Notes, on 8 February 2012 (the "Maturity Date") the Notes were redeemed in full. Notes with a par value of US$144, 493,000 had been repurchased by the Bank prior to the Maturity Date and the remaining Notes (with a par value of US$55,507,000) were repaid on the Maturity Date. Average liquidity ratio of the Bank for February 2012, in accordance with the NBG liquidity regulation, comprised 38.2% as compared to the minimal required of 30%.

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