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BANK OF GEORGIA

Tbilisi, 28 April, 2011

Bank of Georgia Annual Financial Report

In compliance with DTR 6.3.5, the following information constitutes the Annual Financial Report for the year ended 31 December 2010. The audited consolidated financial results of JSC Bank of Georgia and its Subsidiaries, prepared in accordance with International Financial Reporting Standards, are published as part 2 of the Annual Financial Report.

Responsibility Statement

The Management Board confirms to the best of their knowledge that:

- the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards;
- the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and the undertakings included in the consolidation taken as a whole; and
- the Annual Report and Accounts include a fair review of the development and performance of the business and the position of the Bank and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

JSC Bank of Georgia (LSE: BGEO; GSE: GEB) is the leading Georgian bank with operations in Georgia and Belarus. It is the largest bank by assets, loans, deposits and equity in Georgia with 36.2% market share by assets as of 31 December 2010. The Bank offers a broad range of retail banking and corporate banking, wealth management, insurance and brokerage services to its clients.

Summary of Consolidated Financial Performance

Statement of Income 2010 vs. 2009

Overview

Bank of Georgia reported a record 2010 Net income of GEL 82.7 million, or GEL 2.78 per share, compared to 2009 Net loss of GEL 98.9 million. The increase in Net income for the year was a result of a record performance of our banking business driven by improved Net interest income and asset quality, as well as higher Net fee and commission income and higher Gains on foreign currency dealings and improvement in our insurance business. Increased efficiency across the board also contributed significantly. Return on equity (ROE)[1] amounted to 12.6% in 2010.

GEL thousands	**2009**	**2010**	**Change 10/09**
Interest income	379,058	423,141	11.6%
Interest expense	(188,517)	(206,797)	9.7%
Net interest income	190,541	216,344	13.5%
Impairment charge on loans and finance receivable	(125,741)	(44,111)	-64.9%
Net interest income after impairment charge	64,800	172,233	165.8%
Net fee and commission income	55,025	63,420	15.3%
Other non-interest income	82,086	95,022	15.8%
Other non-interest expenses	(307,817)	(232,232)	-24.6%
Profit (loss) before income tax (expense) benefit	(105,906)	98,443	NMF
Income tax (expense) benefit	6,998	(15,776)	NMF
Profit (loss) for the year	**(98,908)**	**82,667**	**NMF**

Net Interest Income

Net interest income (Net interest income before impairment charge on interest-earning assets) increased by 13.5% to GEL 216.3 million in 2010, compared to the Net interest income of GEL 190.5 million in 2009. The increase was attributed to the Interest income growth driven by the significantly increased loan book (Loans to customers) and the decline of funding costs, in particular the average rates paid on customer account balances, which partially offset the impact of the substantial growth of client deposits (Amounts due to customers) in 2010.

The following table and discussion describes the components of this increase.

GEL thousands	**2009**	**2010**	**Change 10/09**
Interest income			
Loans to customers	361,176	389,402	7.8%
Investment securities – held- to-maturity	5,725	12,498	118.3%
Amounts due from credit institutions	5,037	9,795	94.5%
Investment securities – available-for-sale	1,276	7,287	NMF
Finance lease receivables	5,844	4,159	-28.8%
Total interest income	379,058	423,141	11.6%
Interest expense			
Amounts due to customers	(96,749)	(114,654)	18.5%
Amounts due to credit institutions	(91,582)	(91,829)	0.3%
Debt securities issued	(186)	(314)	68.8%
Total interest expense	(188,517)	(206,797)	9.7%
Net interest income	**190,541**	**216,344**	**13.5%**

Interest income increased by GEL 44,083 million, or 11.6%, to GEL 423.1 million in 2010. Of that increase, GEL 28,226 million, or 64.0% came from the increase of Interest income on Loans to customers to GEL 389.4 million. The increased lending activity during the year resulted in the growth of loan balances. Gross Average loans to customers and finance lease receivables reached GEL 2,127.2 million, up by GEL 222.1 million, or 11.7% compared to prior year. (*see the* ***Average Interest Earning Assets and Average Interest Bearing Liabilities*** *table below*).

The interest-earning securities portfolio (investment securities Held-to-maturity and investment securities Available-for-sale), increased on average as the Bank kept most of its excess liquidity in higher yielding local currency liquid assets, resulting in the increases of Interest income from investment securities. *(see more on Investment securities under* ***Average Interest Earning Assets and Average Interest Bearing Liabilities*** *table, Assets discussion and note 11 of this Annual Report)*

Amounts due from credit institutions comprise inter-bank deposits (time deposits with effective maturity of more than 90 days), short-term interbank loans (inter-bank loan receivables) and obligatory reserves with the central banks. The main contributor to the growth of interest earned on Amounts due from credit institutions was the rise of interest earned from inter-bank deposits, a result of the increase in amounts placed at a number of international banking institutions. Obligatory reserves with the central banks grew to GEL 90.4 million from GEL 41.8 million in 2009 as a result of the increased reserve requirement (from nil to five percent) on the borrowed funds by the National Bank of Georgia (NBG) as of September 2010. The increase was also partially attributed to the strong client deposit growth in

2010. *(see more on Amounts due from credit institutions under Assets discussion and in Note and 8 of this Annual Report. For more information on client deposits refer to Assets discussion and Note 20 of this Annual Report)*.

In 2010 Interest expense increased by 9.7% to GEL 206.8 million, compared to GEL 188.5 million in 2009. The growth was primarily attributed to the 18.5% increase in Interest expense on client deposits (Amounts due to customers) to GEL 114.7 million, reflecting the 34.2% growth of Average amounts due to customers in 2010. The increase in Interest expense was in part offset by the decline of average rates paid on customer balances during the year. In 2010 effective average interest rate paid on customer account balances was 7.6% in 2010 compared to 8.4% in 2009.

The other major item of Interest expense is interest expense on the Amounts due to credit institutions, which was virtually flat in 2010, as the Bank's increase in the Borrowings from international credit institutions as well as the growth of Time deposits and inter-bank loans by an aggregate of GEL 210.3 million mostly occurred in November and December 2010. There was also a small increase in Interest expense from Debt securities. *(see more on Amounts due to credit institutions and Debt securities issued under Assets discussion and Notes 18 and 19 of this Annual Report).*

Reflecting the decline of effective average interest rate paid on client deposits and insignificant growth of Interest expense on Amounts due to credit institutions, cost of funds[2] decreased to 8.2% in 2010 from 8.3% in 2009.

Impairment charge and Net interest income after impairment charge

GEL thousands	**2009**	**2010**	**Change 10/09**
Impairment charge on loans to customers	(118,882)	(49,886)	-58.0%
Impairment reversal (charge) on finance lease receivables	(6,859)	5,775	-184.2%
Total impairment charge	**(125,741)**	**(44,111)**	**-64.9%**
Net interest income after impairment charge	**64,800**	**172,233**	**165.8%**

In line with the improvements in asset quality and Georgia's economic recovery during the year, the Loan impairment charge declined to GEL 49.9 million, compared to the Loan impairment charge of GEL 118.9 million in 2009. In 2010, approximately GEL 39.1 million Loan impairment charge was attributed to the Bank's loan book in Georgia and approximately GEL 9.7 million was related to the loan book of BG Bank in Ukraine. In 2009, the Loan impairment charge of GEL 84.8 million and GEL 35.0 million were attributed to the Bank's loan book in Georgia and BG Bank, respectively.

Also, reflecting significant recoveries in Ukrainian finance lease receivables as well as the improved economic environment in Georgia, the Bank's Reversal of impairment on finance lease receivables amounted to GEL 5.8 million in 2010 compared to the Impairment charge on finance lease receivable of GEL 6.9 million in 2009.

As a result of the decline of the Impairment charges on loans to customers and on finance lease receivables, the Bank's Net interest income after impairment charge grew 165.8% to GEL 172.2 million, compared to GEL 64.8 million in 2009.

Net fee and commission income

GEL thousands	2009	2010	Change 10/09
Fee and Commission Income	64,599	74,265	15.0%
Fee and Commission Expense	(9,574)	(10,845)	13.3%
Net fee and commission income	**55,025**	**63,420**	**15.3%**

Net fee and commission income increased by 15.3% to GEL 63.4 million in line with the increases in sales of the Bank's fee generating products and services such as commission income from settlement operations, guarantees and letters of credit, cash operations and fees from advisory services. (*see more on Net fee and commission income in Note 23 of this Annual Report)*

Other non-interest income

GEL thousands	2009	2010	Change 10/09
Net gains from for trading securities	2,763	1,217	-56.0%
Net gains (losses) from investment securities available-for-sale	174	789	NMF
Net gains (losses) from derivative financial instruments	(6,266)	(7,826)	24.9%
Net gains (losses) from revaluation of investment properties	(4,087)	350	NMF
Net gains (losses) from foreign currencies	28,766	33,749	17.3%
Net insurance premiums earned	45,477	44,561	-2.0%
Share of Profit(loss) of associates	(2,649)	255	NMF
Other operating income	17,908	21,927	22.4%
Other non-interest income	**82,086**	**95,022**	**15.8%**

The decrease of GEL 1.5 million in Net gains from trading securities from the prior year was predominantly due to the decline in brokerage activity in Ukraine by the Bank's brokerage subsidiary in line with the weakened economic environment in the country. The losses on derivatives were due to the appreciation of the fair value of the derivative financial liability related to the interest rate swap contract, entered by the Bank with International Finance Corporation (IFC) in May 2009 to hedge U.S dollar interest rate risk on the outstanding long-term borrowings.

The Bank owns several investment properties mostly in Georgia. As real estate prices stabilized during 2010 in line with recovery of Georgia's economy, a revaluation of the properties resulted in the Net gains of GEL 350 thousand.

Gains from foreign currencies, essentially comprised of commissions earned by the Bank from the currency exchange transactions, increased by 17.3% to GEL 33.7 million, the growth in line with the increased business activity and foreign currency exchange transactions in Georgia.

Net insurance revenue comprised of Net premiums earned less Net claims incurred, increased by 8.4% to GEL 16.7 million, mostly due to the notably improved claims management of the Aldagi BCI (ABCI), the Bank's insurance subsidiary, that led to GEL 2.2 million, or 7.3% decrease of Net insurance claims incurred to GEL 27.9 million. (*see more on Net Insurance claims incurred in the Other* ***Non-Interest Expenses Table.*** *For more information on Net insurance revenue please see Note 24 of this Annual Report)*

The Bank's Share of loss of associates, where the Bank owned less than or equal to 50% equity interest, resulted in the total Share of gain of GEL 255 thousand in 2010 compared to the Share of loss of GEL 2.6 million in 2009. *(see more on Share of profit(loss) of associates in Note 12 of this Annual Report).*

Other Non-interest expenses

Other non-interest expenses were GEL 232.2 million, down GEL 75.6 million, or 24.6%, from the prior year.

GEL thousands	**2009**	**2010**	**Change 10/09**
Salaries and other employee benefits	(100,505)	(104,551)	4.0%
General and administrative expenses	(57,339)	(61,000)	6.4%
Net insurance claims incurred	(30,102)	(27,898)	-7.3%
Depreciation, amortization and impairment	(101,700)	(28,398)	-72.1%
Impairment charge on other assets and provisions	(6,431)	(3,587)	-44.2%
Other operating expenses	(11,740)	(6,798)	-42.1%
Other non-interest expenses	**(307,817)**	**(232,232)**	**-24.6%**

In line with the growth of business across the board, the Bank's salaries and other employee benefits increased 4.0% to GEL 104.6 million, mostly due to the average headcount increase from 4,885 in 2009 to 5,152 in 2010. Despite the increase in the headcount, the improved efficiency translated into the improved Other non-interest expense per average employee ratio, which declined from GEL 63.0 in 2009 to GEL 45.1 in 2010.

The main contributor to the 6.4% growth of General and Administrative expenses was marketing and advertising expenses, due to the increased lending and deposit gathering activities in Georgia.

In 2009 the Depreciation, amortization and impairment expense of GEL 101.7 million was burdened by the one-off Goodwill impairment charge of GEL 73.1 million related to the goodwill write off of BG Bank and the devaluation of BG Bank's property. The 2010 improvement reflects the return to more normal depreciation and amortization levels.

The improvement in the Impairment charge on other assets and provisions reflects the improvement of the credit quality of receivables of debtors related to documentary operations.

The decrease of Other operating expenses was attributed to the cost efficiency measures implemented during 2010 in the Bank and its subsidiaries. (Se*e more on Other non-interest expenses in Notes 14, 15, 17, 24 and 25 of this Annual Report).*

The improved operating efficiency, a result of cost containment and technological enhancement, are reflected in the improved Cost/Income ratio compared to the prior year. Other non-interest expense per average Total assets[3] improved from 9.2% in 2009 to 6.0% in 2010.

	2008	2009	2010
Cost/Income	63.3%	93.3%	58.9%

For the purposes of the Cost/Income ratio calculation, Income equals sum of Net Interest income before impairment charges, Net fee and commission income and Other non-interest income less Net insurance claims incurred. Cost equals Other non-interest expense excluding Net Insurance claims incurred.

Income tax expense for 2010 amounted to GEL 15.8 million, compared to Income tax benefit of GEL 7.0 million in 2009.

Average Interest Earning Assets and Average Interest Bearing Liabilities[2]

Net Interest Margin (NIM)[2] declined to 8.1% in 2010 from 9.1% in 2009. The decrease was a result of the increased liquidity, attributed to the higher growth rate of average client deposits relative to the growth rate of average loans and higher concentration of lower yielding corporate loans in the total loan book compared to the prior year. The Bank's Net interest income before impairment charge on interest earning-assets grew 13.5% to GEL 216.3 million in 2010.

GEL thousands	**2009**	**2010**	**Change 10/09**
Average amounts due from credit institutions	324,554	391,763	20.7%
Average loans to customers and finance lease receivables, gross	1,905,107	2,127,192	11.7%
Less: average allowance for impairment: loans to customers and finance lease receivables	(150,660)	(184,614)	22.5%
Average loans to customers and finance lease receivables, net	1,754,447	1,942,579	10.7%
Average interest earning investment securities	95,592	261,167	173.2%
Average interest earning assets	**2,174,593**	**2,595,509**	**19.4%**
Average amounts due to customers	1,137,895	1,526,794	34.2%
Average amounts due to credit institutions	1,054,023	1,076,455	2.1%
Average debt securities issued	159	3,362	NMF
Average interest bearing liabilities	**2,192,077**	**2,606,611**	**18.9%**

Segment Results

The overall results benefited from improved operating income and pre-tax profits of each of our operating segment and were driven by a strong performance in retail banking, corporate banking, brokerage and asset and wealth management and insurance.

The following discussion summarizes the Bank's income statement segment information. The amounts presented in each segment table below exclude corporate center and intercompany eliminations. *(See more information on Segment results in Note 6)*

Retail banking

GEL thousands	**2009**	**2010**	**Change '10/'09**
Retail banking			
Total operating income	167,677	162,482	-3.1%
Result (Pre-tax profit/(loss))	(46,094)	44,618	-62.9%

In 2010 the decline in Retail banking was mostly attributable to the decline in Net interest income generated by the retail loan book compared to the previous year, reflecting the strong growth of retail deposits and relatively modest increase of the retail loan book.

The 2010 pre-tax profit of GEL 44.6 million posted by Retail banking compares to the 2009 Pre-tax loss of GEL 46.1 million. The 2009 Pre-tax loss included high impairment charges on retail banking interest earning assets and the retail portion of the written-off goodwill of BG Bank, Ukraine. The 2010 retail banking result benefited from lower impairment charges compared to the previous year and lower retail banking costs due to increased efficiency that resulted in Retail banking Pre-tax profit of GEL 44.6 million in 2010.

Corporate banking

GEL thousands	**2009**	**2010**	**Change '10/'09**
Corporate banking			
Total operating income	110,630	141,523	27.9%
Result (Pre-tax profit/(loss))	(13,583)	56,454	NMF

In 2010 corporate banking posted strong results due to significant growth of corporate lending in Georgia during the year. The growth of total operating income of corporate banking business by GEL 30.9 million, or 27.9% compared to 2009 was driven by increases in net interest income on corporate loan book and in net foreign currency gains as the Bank collected higher commissions on increased volumes of foreign currency transactions by the corporate clients compared to the prior year.

Corporate banking results in 2010 also benefited from the improved operating environment as reflected in the decline of impairment charges on corporate bank's interest earning assets from GEL 42.5 million in 2009 to GEL 15.8 million in 2010.

Brokerage and Asset and wealth management

GEL thousands	**2009**	**2010**	**Change '10/'09**
Brokerage and Asset and Wealth management			
Total operating income	(20,453)	12,102	NMF
Result (Pre-tax profit/(loss))	(40,530)	(15,047)	NMF

Brokerage and Asset and Wealth Management business generated 2010 total operating income of GEL 12.1 million that compares to the total operating expense of GEL 20.5 million in 2009. The better operating result of the segment was largely driven by the improved operating performance of the wealth management business and the effects of the revaluation of properties held by the Bank's subsidiaries, mostly in Georgia. The enhanced operating performance of Brokerage and Asset and Wealth Management translated into the improved Pre-tax loss of GEL 15.0 million from the Pre-tax loss of GEL 40.5 million in 2009.

Insurance

GEL thousands	2009	2010	Change '10/'09
Insurance			
Total operating income	47,790	48,711	1.9%
Result (Pre-tax profit/(loss))	2,883	5,481	90.1%

Insurance segment posted strong 2010 results that predominantly reflect the strong revenues generated by the Bank's insurance subsidiary, improvements in claims management and operating cost efficiency achieved during the year.

Statement of Income 2009 vs. 2008

Overview

The Net loss of GEL 98.9 million in 2009 was primarily a result of high impairment charge on Loans to customers of GEL 118.9 million and Goodwill impairment charge on Loans to customers of GEL 73.1 million, predominantly associated with the goodwill write-off of BG Bank, the Bank's subsidiary in Ukraine. The Bank's performance was also affected by the challenging business environment in the first half of 2009.

GEL thousands	2008	2009	Change 09/08
Interest income	403,939	379,058	-6.2%
Interest expense	(183,099)	(188,517)	3.0%
Net interest income	220,840	190,541	-13.7%
Impairment charge on loans and finance receivable	(124,147)	(125,741)	1.3%
Net interest income after impairment charge	96,693	64,800	-33.0%
Net fee and commission income	49,969	55,025	10.1%
Other non-interest income	91,756	82,086	-10.5%
Other non-interest expenses	239,222	307,817	28.7%
Loss before income tax benefit	(804)	(105,906)	NMF
Income tax benefit	978	6,998	NMF
Profit (loss) for the year	**174**	**(98,908)**	**NMF**

Net Interest Income

Net interest income decreased by 13.7% from 2008 to GEL 190.5 million in 2009, primarily due to significantly decreased yield on liquid assets and increased funding costs, a result of the growth of deposits (Amounts owed to customers) and the increase in effective average interest rates on deposits in 2009 compared to 2008.

GEL thousands	**2008**	**2009**	**Change 09/08**
Interest income			
Loans to customers	363,013	361,176	-0.5%
Investment securities – held- to-maturity	16,457	5,725	-65.2%
Amounts due from credit institutions	10,732	5,037	-53.1%
Investment securities – available-for-sale	6,727	1,276	-81.0%
Finance lease receivables	7,010	5,844	-16.6%
Total interest income	**403,939**	**379,058**	**-6.2%**
Interest expense			
Amounts due to customers	(85,358)	(96,749)	13.3%
Amounts due to credit institutions	(97,035)	(91,582)	-5.6%
Debt securities issued	(706)	(186)	-73.7%
Total interest expense	**(183,099)**	**(188,517)**	**3.0%**
Net interest income	**220,840**	**190,541**	**-13.7%**

In 2009 all Interest income items contributed to the decline of total Interest income. Despite the contraction of the gross loan book by 14.8% during the year, interest income on Loans to customers remained largely unchanged, declining by 0.5% to GEL 361.2 million. In 2008 loan balances increased until mid-year and declined at the end of the year. Loan balances continued their decline during the first half of 2009, increasing only slightly towards the end of the year. (*see the **Average Interest Earning Assets and Average Interest Bearing Liabilities** table*).

Interest income on Bank of Georgia's securities portfolio (Investment securities held-to-maturity and available-for-sale taken together) decreased by GEL 16.2 million to GEL 7.0 million in 2009. The decline, despite growth in the Bank's securities portfolio from GEL 56.6 million as of 31 December 2008 to GEL 268.8 million as of 31 December 2009, was a result of higher average securities portfolio maintained by the Bank in 2008 (*see the **Average Interest Earning Assets and Average Interest Bearing Liabilities** table)* and significantly higher average interest rates on these instruments during 2008. The Bank's debt securities portfolio in 2009 was comprised of Certificates of Deposit of central banks and Ministry of Finance treasury bills of Georgia, both Held-to-maturity, and Available-for-sale securities such as Corporate bonds and Ministry of Finance treasury bills of Ukraine. *(see more on Investment securities under Assets discussion)*

Interest earned on Amounts due from credit institutions decreased by 53.1% to GEL 5.0 million in 2009, mostly due to the decline of interest earned from the interbank deposits (Time deposits with effective maturity of more than 90 days) placed at several international banking institutions. In 2009 Amounts due from credit institutions comprised of inter-bank deposits with effective maturity of more than 90 days, short-term interbank loans and Obligatory reserves with the central banks. Obligatory reserves with the central banks increased from GEL 39.7 million in 2008 to GEL 41.8 million in 2009, a result of deposit growth.

Interest expense, consisting of interest expense on the Amounts due to credit institutions, interest expense on deposits (Amounts due to customers) and interest expense on Debt securities issued, increased by 3.0% to GEL 188.5 million in 2009. The growth resulted primarily from the 13.3% increase in Interest expense on deposits (Amounts due to customers) to GEL 96.7 million, as deposits increased by 6.7% to GEL 1,272.5 million at 31 December 2009. Effective average interest rate paid on customer account balances was 8.4% in 2009 and 6.6% in 2008. Interest expense on the Amounts due to credit institutions declined by 5.6% to GEL 91.6 million as a result of the reduction of the Amounts due to credit institutions by GEL 288.1 million in 2009. As a result, cost of funds[2] increased from 8.1% in 2008 to 8.3% in 2009.

Despite the loan book contraction and high liquidity in the second half of the year, Bank of Georgia's NIM [2] stood at healthy 9.1% in 2009 (compared to 9.6% in 2008).

Impairment charge and Net interest income after impairment charge

GEL thousands	**2008**	**2009**	**Change 09/08**
Impairment charge on loans to customers	(122,812)	(118,882)	-3.2%
Impairment charge on finance lease receivables	(1,335)	(6,859)	NMF
Total impairment charge	**(124,147)**	**(125,741)**	**1.3%**
Net interest income after impairment charge	**96,693**	**64,800**	**-33.0%**

Reflecting the improved but still weak operating environment in Georgia in 2009, the Loan impairment charge declined only slightly to GEL 118.9 million, compared to GEL 122.8 million in 2008. Approximately GEL 84.8 million Loan impairment charge was attributed to the Bank's loan book in Georgia and approximately GEL 35.0 million was related to the loan book of BG Bank in Ukraine. In 2008, the Loan impairment charge of GEL 110.6 million and GEL 18.0 million were attributed to the Bank's loan book in Georgia and BG Bank, respectively. The decline in Net interest income before impairment charge more than offset the improvements Impairment charges on loans to customers resulting in the decline of Net interest income after impairment charge to GEL 64.8 million compared to GEL 96.7 million in 2008.

Net fee and commission income

GEL thousands	**2008**	**2009**	**Change 09/08**
Fee and commission income	63,503	64,599	1.7%
Fee and commission expense	(13,534)	(9,574)	-29.3%
Net fee and commission income	**49,969**	**55,025**	**10.1%**

Net fee and commission income rose by 10.1% to GEL 55.0 million. Fee and commission income comprised fee and commission from settlement operations, guarantees and letters of credit, cash operations, currency conversion operations, brokerage services, advisory services and other fees. The growth in 2010 was driven by the increases in sales of fee generating products and services listed above.

Other non-interest income

GEL thousands	2008	2009	Change 09/08
Net gains from for trading securities	(5,447)	2,763	NMF
Net gains (losses) from investment securities available-for-sale	513	174	-66.1%
Net gains (losses) from derivative financial instruments	-	(6,266)	-
Net gains (losses) from revaluation of investment properties	(389)	(4,087)	NMF
Net gains (losses) from foreign currencies:	47,134	28,766	-39.0%
Net insurance premiums earned	35,911	45,477	26.6%
Share of loss of associates	(713)	(2,649)	NMF
Other operating income	14,747	17,908	21.4%
Other non-interest income	**91,756**	**82,086**	**-10.5%**

The Bank's Other non-interest income declined by 10.5% to GEL 82.1 million in 2009. Net gains from trading securities amounted to GEL 2.8 million in 2009, compared to the Net loss of GEL 5.4 million in 2008. Due to the drop in real estate prices in Georgia by approximately 20%, the revaluation of investment properties resulted in the Net losses of GEL 4.1 million, compared to the Net losses of GEL 0.4 million in 2008. Gains from foreign currencies decreased 39.0% to GEL 28.8 million in 2009.

Net insurance revenue comprised of Net premiums earned less Net claims incurred increased by 70.5% to GEL 15.4 million, mostly a result of the increase in Net insurance premiums earned driven by the rise of the premiums earned on health insurance.

The Bank's Share of loss of associates, where the Bank owned less than or equal to 50% equity interest, resulted in the total Share of loss of GEL 2.6 million in 2009 compared to the Share of loss of GEL 0.7 million in 2008.

Other non-interest expenses

GEL thousands	2008	2009	Change 09/08
Salaries and other employee benefits	(108,767)	(100,505)	-7.6%
General and administrative expenses	(68,649)	(57,339)	-16.5%
Net insurance claims incurred	(26,895)	(30,102)	11.9%
Depreciation, amortization and impairment	(20,532)	(101,700)	NMF
Impairment charge on other assets and provisions	(4,551)	(6,431)	41.3%
Other operating expenses	(9,828)	(11,740)	19.5%
Other non-interest expenses	**(239,222)**	**(307,817)**	**28.7%**

In 2009 Salaries and other employee benefits decreased by 7.6% from 2008 to GEL 100.5 million, a result of headcount reduction and cost optimization measures undertaken by the Bank in December 2008 and in 2009. The number of personnel of the Bank reached 4,781 employees at the year-end 2009 compared to 4,949 employees as of

31 December 2008 and 6,196 as of November 2008 immediately prior to the headcount reduction conducted by the Bank in December 2008. Salaries and other employee benefits accounted for 32.7% of Other non-interest expenses compared to 45.5% in 2008.

General and administrative expenses declined by 16.5% to GEL 57.3 million. Depreciation, amortization and impairment expense amounted GEL 101.7 million in 2009, an increase of GEL 81.2 million in 2009, which more than offset the decline in Salaries and other employee benefits expense and General and administrative expenses and resulted in a 28.7% increase of the Bank's Other non-interest expenses to GEL 307.8 million in 2009 (compared to 74.9% growth in 2008). The significant increase of the Depreciation, amortization and impairment cost in 2009 was largely driven by the Goodwill impairment charge of GEL 73.1 million associated predominantly with the goodwill write-off of BG Bank, while the impairment of BG Bank property amounted to GEL 3.2 million. The Bank's charge for depreciation of property increased by GEL 3.8 million, or 20.6%, to GEL 22.5 million due to additions of furniture and fixtures. The charge for amortization of intangibles increased by GEL 1.3 million, or 80.0% to GEL 2.9 million, mostly due to American Express license acquired by the Bank in December 2008 and other software additions during 2009.

Impairment charge on other assets and provisions increased to GEL 6.4 million in 2009, compared to Impairment charge on other assets and provisions in 2008 of GEL 4.6 million. Despite the reversal of Provision for guarantees and commitments in the amount of GEL 2.1 million, the increase of Impairment charge was driven by the Impairment charge for investments in associates of GEL 2.2 million and Impairment charge for other assets totaling GEL 5.5 million, which is predominantly attributable to the provisioning of the Bank's Receivable from documentary operations.

Income tax benefit for 2009 amounted to GEL 7.0 million, due to the Loss before income tax benefit for the year. Income tax benefit in 2008 amounted to GEL 1.0 million.

Average Interest Earning Assets and Average Interest Bearing Liabilities[2]

GEL thousands	**2008**	**2009**	**Change 09/08**
Average amounts due from credit institutions	220,931	324,554	46.9%
Average loans to customers and finance lease receivables, gross	2,038,632	1,905,107	-6.5%
Less: average allowance for impairment: loans to customers and finance lease receivables	(72,650)	(150,660)	107.4%
Average loans to customers and finance lease receivables, net	1,965,982	1,754,447	-10.8%
Average interest earning investment securities	124,776	95,592	-23.4%
Average interest earning assets	**2,311,689**	**2,174,593**	**-5.9%**
Average amounts due to customers	1,256,082	1,137,895	-9.4%
Average amounts due to credit institutions	1,010,814	1,054,023	4.3%
Average debt securities issued	7,504	159	-97.9%
Average interest bearing liabilities	**2,274,400**	**2,192,077**	**-3.6%**

Balance Sheet highlights

2010 vs 2009

Assets

As of 31 December 2010 Bank of Georgia's Total assets reached GEL 4,004.9 million, growing by GEL 1,091.5 million, or 37.5% from the prior year. As the deposit inflow outpaced the lending rate during 2010, the Bank increased its amounts placed on current and time deposit account at various international banks and central banks, resulting in the 70.9% growth of the Cash and cash equivalents to GEL 611.6 million. The Bank maintained high liquidity levels during the year and as of the year-end 2010 Cash and cash equivalents accounted for 15.3% of Total assets, compared to 12.3% in 2009, while the average liquidity ratio[4], based on the NBG standards, stood at 35.6% in 2010, higher than NBG's 30% requirement, compared to 36.5% in 2009, when the NBG required the minimum of 20% average liquidity ratio.

Amounts due from credit institutions grew to GEL 116.5 million from GEL 64.6 million in 2009. The 80.2% growth during 2010 was primarily due to the increase in Obligatory reserves with central banks from GEL 41.8 million in 2009 to GEL 90.4 million in 2010. The increase was due the introduction of five percent reserve requirement on the borrowed funds by the NBG and the solid growth of the client deposits during the year. The Bank's securities portfolio grew by GEL 26.2 million to GEL 295.0 million in 2010. The growth was predominantly a result of the purchase of Ministry of Finance treasury bonds available-for-sale. During the second half of 2010, the Bank sold part of the investment securities held-to-maturity and has reclassified most of the remaining investments as securities available-for-sale. As a result, Available-for-sale securities grew by GEL 275.4 million to GEL 294.9 million, while Held-to-maturity securities declined to GEL 21 thousand from GEL 249.2 million in 2009. As of 31 December, Available-for-sale securities held by the Bank comprised Ministry of Finance treasury bills and bonds of GEL 180.7 million, Certificates of deposit of central banks of GEL 105.0 million and Corporate shares in the amount of GEL 11.3 million, compared to an aggregate of GEL 16.4 million Corporate shares and bonds held by the Bank in 2009. (*see more on Investment securities in Note 11 of this Annual Report).*

In 2010 the Bank's gross loan book, which predominantly comprised of the loans issued in Georgia, grew to GEL 2,527.2 million, an increase of GEL 699.4 million, or 38.3%. The growth of the gross loans book was largely driven by the growth of commercial loans, which grew 51.6% to GEL 1,424.6 million and micro loans up 138.5% to GEL 238.5 million. Residential mortgage loans, consumer loans and gold-pawn loans increased by 5.8%, 15.4% and 6.2%, respectively.

Gross Loans

GEL thousands	**2008**	**2009**	**2010**	**Change '10/'09**
Commercial loans	1,044,959	939,814	1,424,550	51.6%
Residential mortgage loans	391,606	387,415	409,786	5.8%
Consumer loans	496,197	332,537	383,615	15.4%
Micro loans	151,313	99,981	238,462	138.5%
Gold – pawn loans	46,374	62,829	66,749	6.2%
Others	15,174	5,241	4,071	-22.3%
Loans to customers, gross	**2,145,623**	**1,827,817**	**2,527,233**	**38.3%**
Less – Allowance for loan impairment	(106,601)	(166,486)	(175,536)	5.4%
Loans to customers, net	**2,039,022**	**1,661,331**	**2,351,697**	**41.6%**

Loans to Private companies accounted for 58.9% of total gross loan book (includes portion of Micro loans), increasing by 59.3% to GEL 1,488.6 million in 2010 compared to GEL 934.5 million in 2009. Loans to individuals of GEL 1,006.0 million, increased by 16.7% compared to 2009, and represented 39.8% of total gross loans. Loans extended to State-owned entities in the amount of GEL 32.6 million, or a 5.3% increase from 2009, continued to hold the smallest share with 1.3% of the total gross loan book.

Bank of Georgia maintained the diversified loan book across various sectors of the economy. By the end of 2010, ten largest borrowers accounted for 15% of the total gross loan book, up from 11% in 2009.

In line with the gross loan book growth during the year, Allowance for the loan impairment grew by GEL 9.1 million, or 5.4%, to GEL 175.5 million. As of 31 December 2010, Allowance for the loan impairment represented 6.9% of gross loans, which compares favourably to the Allowance for the loan impairment to gross loans ratio of 9.1% in 2009.

Allowance for loan impairment

GEL thousands	**2008**	**2009**	**2010**	**Change '10/'09**
Commercial loans	45,755	82,042	114,499	39.6%
Consumer loans	42,153	54,989	31,873	-42.0%
Residential mortgage loans	7,969	23,490	22,424	-4.5%
Micro loans	4,921	3,788	5,951	57.1%
Others	5,803	2,177	789	-63.8%
Total	**106,601**	**166,486**	**175,536**	**5.4%**

As of 31 December 2010 the non-performing loans[3] (NPLs) improved, declining by 16.0% to GEL 117.6 million and accounting for 4.7% of total gross loans compared to the NPL/total gross loan ratio of 7.7% in 2009.

The Bank's loan book remains highly collateralized, with 92% of the total volume of gross loans to clients secured by mostly property, inventory and trade receivables for commercial lending and by mortgages over residential properties for individual lending.

Liabilities

As of 31 December 2010, Total liabilities increased by 43.0% to GEL 3,311.6 million, driven by the 57.5% increase in client deposits to the record level of GEL 2,004.7 million, which compares to GEL 1,272.5 million in 2009. The growth was driven by 62.8% increase in client deposits from private enterprises increasing by GEL 363.7 million to GEL 942.5 million. Client deposits from Individuals increased by GEL 256.5 million to GEL 894.3 million as of 31 December 2010, while client deposits of State and budget organizations increased by GEL 112.0 million, or 200.6%, to GEL 167.8 million. Client deposits accounted for 60.5% of Total liabilities as compared to the same ratio of 55.0% in 2009. As a result of the strong growth of average client deposits during 2010, the Net Loans to Client Deposits ratio declined to 117.3% in 2010 from 130.6% in 2009.

Amounts due to credit institutions increased by 22.6% to GEL 1,138.9 million, compared to GEL 928.6 million in 2009 million. The increase from the prior year was mostly attributed to the increase in Time deposits and inter-bank loans by GEL 117.5 million to GEL 130.3 million and the increase in Borrowings from international credit institutions by GEL 90.3 million to GEL 1,003.9 million.

As of 31 December 2010, Time deposits of GEL 1,140.4 million were up by GEL 427.9 million, 60.1% and accounted for 56.9% of total client deposits, remaining largely at the same level of 56.0% in 2009. Current accounts grew by 54.3%, or GEL 304.3 million, to GEL 864.3 million up from GEL 560.0 million in 2009.

As of 31 December 2010, ten largest customers accounted for 18% (or GEL 360.2 million), of deposits, up from 17% in 2009.

Equity

As of 31 December 2010, authorized share capital comprised of 43,308,125 ordinary shares, of which 31,344,860 were Ordinary shares issued and fully paid compared to 31,306,071 Ordinary shares issued and fully paid as of 31 December 2009.

Regulatory capital and Capital adequacy (BIS)

GEL thousands	**2008**	**2009**	**2010**
Ordinary shares	31,253	31,306	31,345
Share premium	468,732	478,779	477,285
Retained earnings	137,768	38,625	129,341
Tier I capital	**637,753**	**548,710**	**637,971**
Undisclosed reserves	56,913	-	-
General loan loss provisions	32,662	27,301	45,666
Revaluation reserves	26,201	24,387	26,816
Subordinated debt	157,535	317,791	332,306
Tier II capital	**273,311**	**369,480**	**404,788**
Deductions from capital	(134,238)	(67,454)	(70,722)
Total capital	**776,826**	**850,736**	**972,037**
Risk-weighted assets	2,950,653	2,454,763	3,653,247
Tier I capital adequacy ratio	**21.6%**	**22.4%**	**17.5%**
Total capital adequacy ratio	**26.3%**	**34.7%**	**26.6%**

Bank of Georgia ended the year with a strong capital position, based on Tier I and Total Capital Ratios (BIS).

Total capital was GEL 972.0 million as of 31 December 2010, compared with GEL 850.7 million in 2009, an increase of GEL 121.3 million. The increase in Total capital was largely attributable to the 16.3% increase of Tier I capital to GEL 638.0 million, driven by the increase in Retained earnings for the period. The Bank's Tier II capital grew by GEL 35.3 million, or 9.6% to GEL 404.8 million compared to Tier II capital of GEL 369.5 million in 2009. The growth in 2010 mostly related to the increase of general loan provisions by GEL 18.4 million and the increase of the subordinated debt by GEL 14.5 million.

Risk-weighted assets increased by 48.8% to GEL 3,653.2 million in 2010 compared to GEL 2,454.8 million in 2009, a result of the increase of the loan book during the year.

National Bank of Georgia requires capital adequacy calculation based on the NBG methodology, which is done on a standalone basis. Based on the NBG calculation method, Bank of Georgia's Tier I and Total Capital Ratios as of 31 December 2010 were at 13.0%, and 14.5%, respectively, and above the statutory minimum of 8% for Tier I and 12% for Total Capital. In 2009, Tier I and Total Capital, based on the NBG methodology, amounted to 19.7% and 16.8%.

The decline in Tier I and Total Capital ratios in 2010 compared to 2009 was due to the changes in the calculation methods of risk-weighted assets by the NBG, entailing the increase of the risk-weighting on the foreign currency denominated loans from 150% in 2009 to 175% in 2010.

2009 vs. 2008

As of 31 December 2009 Bank of Georgia had Total assets of GEL 2,913.4 million, as compared to Total Assets of GEL 3,258.9 million in 2008, a decrease of 10.6%. Cash and cash equivalents, which accounted for 12.3% of Total assets, decreased by 13.9% to GEL 357.9 million in 2009, mostly a result of the decrease in the Time deposits with credit institutions up to 90 days. The average liquidity ratio[4], based on the NBG standards, was 36.5% in 2009, compared to 31.1% in 2008, higher than the NBG's 20% requirement. The Bank’s securities portfolio grew by GEL 212.2 million to GEL 268.8 million in 2009, predominantly a result of GEL 144.1 million held-to-maturity Georgia’s Ministry of Finance treasury bills purchased by the Bank in 2009. Available-for-sale securities decreased from GEL 33.7 million in 2008 to GEL 19.6 million in 2009, mostly attributable to the disposal of the Corporate shares in the aggregate value of GEL 8.3 million. In 2009, the Bank also disposed Corporate bonds in the aggregate amount of GEL 3.8 million.

In 2009, gross loan book predominantly comprised of the loans issued in Georgia, decreased by 14.8% to GEL 1,827.8 million. While residential mortgage loans held steady at -1.1%, the difficult business environment negatively affected all other loan categories except gold-pawn loans, which profited from the increased demand for this product during the economic downturn.

Loans to Private companies accounted for 51.1% of total gross loan book (includes portion of Micro Loans), decreased 9.2% to GEL 934.5 million in 2009. Loans to individuals of GEL 862.4 million, declined by 20.1% compared to 2008, and represented 47.2% of total gross loans. Loans extended to State-owned entities in the amount of GEL 31.0 million, or a 15.6% decrease from 2008, continued to hold the smallest share with 1.7% of the total gross loan book.

Bank of Georgia maintained the diversified loan book across various sectors of the economy. By the end of 2009, ten largest borrowers accounted for 11% of the total gross loan book, at the same level as in 2008.

Allowance for the loan impairment increased from the prior year due to an increase in estimated losses predominantly for consumer loans, due to the weakening of economic environment. As a result, the Allowance for the loan impairment amounted to GEL 166.5 million, compared to GEL 106.6 million in 2008. Allowance for the loan impairment to gross loans ratio in 2009 increased to 9.1% from 5.0% in 2008.

As of 31 December 2009 the non-performing loans (NPLs)[3] accounted for 7.7% of total gross loans.

The Bank’s loan book remains highly collateralized, with 93% of the total volume of gross loans to clients secured by mostly property, inventory and trade receivables for commercial lending and by mortgages over residential properties for individual lending.

Liabilities

As of 31 December 2009, Total liabilities decreased 8.9% to GEL 2,315.0 million, primarily due to the 23.7% decrease in the Amounts due to credit institutions to GEL 928.6 million following the repayment of the aggregate of GEL 225 million wholesale debt funding by the Bank during the year.

Amounts due to customers, or deposits, increased by 6.7%, or GEL 79.3 million, to GEL 1,272.5 million in 2009 driven by 28.7% increase in deposits from Individuals, which increased by GEL 142.0 million to GEL 637.8 million as of 31 December 2009. Deposits from Private enterprises declined by GEL 48.2 million, or 7.7% to GEL 578.8 million, while deposits of State and budget organizations decreased by GEL 14.5 million, or 20.6%, to GEL 55.8 million.

As of 31 December 2009, Time deposits of GEL 712.5 million accounted for 56.0% of total deposits, up from 48.7% in 2008, translating into the growth of 22.7%, or GEL 131.9 million. Current accounts declined by 8.6%, or GEL 52.5 million, to GEL 560.0 million.

As of 31 December 2009, ten largest customers accounted for 17% (or GEL 217.3 million), of deposits, down from 27% in 2008.

Equity

As of 31 December 2009, authorized share capital comprised of 43,308,125 ordinary shares, of which 31,306,071 were Ordinary shares issued and fully paid compared to 31,253,283 Ordinary shares issued and fully paid as of 31 December 2008.

Regulatory capital and Capital adequacy (BIS)

Bank of Georgia maintained a well-capitalized position, based on Tier I and Total Capital Ratios (BIS) as of 31 December 2009 and 31 December 2008.

Total capital was GEL 850.7 million at 31 December 2009, compared with GEL 776.8 million in 2008, an increase of GEL 73.9 million. The increase in Total capital was largely attributable to the 35.2% increase of Tier II capital to GEL 369.5 million driven by the increase in subordinated term debt to GEL 317.8 million. The Bank's Tier I capital declined by 14.0% to GEL 548.7 million a result of the decline in Retained earnings to GEL 38.6 million in 2009.

Risk-weighted assets decreased by 16.8% to GEL 2,454.8 million in 2009 from GEL 2,950.7 in 2008, in line with the contraction of the loan book during the year.

National Bank of Georgia requires capital adequacy calculation based on the NBG methodology, which is done on a standalone basis. Based on the NBG calculation method, Bank of Georgia's Tier I and Total Capital Ratios as of 31 December 2009 were at 19.7%, and 16.8%, respectively, and above the statutory minimum of 8% for Tier I and 12% for Total Capital. In 2008, Tier I and Total Capital, based on the NBG methodology, amounted to 16.6% and 13.5%, respectively.

Shareholders

End of period	**2008**	**2009**	**2010**
Bank of New York (Nominees), Limited	77.45%	88.86%	90.50%
East Capital Financial Institutions	4.37%	4.36%	4.36%
Firebird Avrora Fund	4.68%	-	-
Firebird Republics Fund	4.58%	-	-
Bank Austria Creditanstalt	-	-	-
Others (less than 4% individually)	8.92%	6.78%	5.14%
Total	**100.0%**	**100.0%**	**100.0%**

As of 31 December 2010 the members of the Supervisory Board and Management Board owned 448,232 shares of Bank of Georgia. In addition, the members of the Supervisory Board and Management Board and employees were awarded or were committed to award 1,341,918 and 1,130,412 GDRs in 2010 and 2009, respectively. The following table depicts the interest of the members of the Supervisory Board and Management Board as of 31 December 2010, 2009 and 2008.

	31-Dec-08	**31-Dec-09**	**31-Dec-10**
Shareholder		**Shares and GDRs held**	
Irakli Gilauri	136,303	216,230	200,379
Sulkhan Gvalia	166,907	136,049	60,638
Allan Hirst	10,685	46,772	56,311
Avto Namicheishvili	12,489	29,999	34,823
Kakha Kiknavelidze	4,938	15,027	22,509
Irakli Burdiladze	10,036	23,035	17,504
David Morisson	-	7,342	15,351
Giorgi Chiladze	-	6,333	14,333
Mikheil Gomarteli	-	9,916	10,634
Al Breach	-	-	6,527
Neil Janin	-	-	3,945
Archil Gachechiladze	-	-	3,700
Jan Hague	-	-	1,578
Nicholas Enukidze	75,377	122,259	-
Ramaz Kukuladze	52,092	-	-
Total	**468,827**	**612,962**	**448,232**

[1] Return on total shareholders' equity excluding non-controlling interests

[2] Average disclosures as well as average balances used in ratios are derived from the Bank's IFRS-based management reports in 2010, 2009 and 2008 and are based on monthly averages

[3] NPLs are more than 90 days overdue loans including principal and interest payment

[4] Liquidity ratio based on NBG standards is calculated as a percentage of liquid assets to total liabilities.
Liquid assets include cash, mandatory reserves in NBG, nostro accounts in NBG and commercial banks, interbank deposits, Georgian state debt securities and NBG certificates of deposits, net of pledges.
Liabilities are calculated as the sum of the Bank's total liabilities and off-balance-sheet liabilities and do not include: those loans, subordinated debts and off-balance sheet liabilities, and/or their part, which will mature in more than six months; a part of the issued guarantees and outstanding letters of credit secured with funds blocked in the same bank; and commitments to trade foreign exchange.

Recent Developments

Sale of equity interest in BG Bank, Ukraine

In February 2011, JSC Bank of Georgia sold an 80.0% equity interest in BG Bank, its subsidiary in Ukraine. The total consideration including brokerage fees paid to BG Capital, the Bank's wholly owned brokerage subsidiary amounted to US$9.6 million (GEL 17.0 million). The aggregate pricing of the Transaction translates into the valuation of 0.82 times book value of BG Bank, which stood at US$14.6 million (GEL 26.0 million) IFRS-based, as per Bank of Georgia's unaudited management accounts as of 31 January 2011. Bank of Georgia will retain 19.4% equity interest in BG Bank. Bank of Georgia does not have debt exposure to BG Bank or any other Ukrainian entity.

Announced the launch of the tender offer for Loan Participation Notes

On 19 April 2011 Bank of Georgia invited holders of the outstanding US$200,000,000 9.0 per cent. Loan Participation Notes due 2012 issued by BG Finance B.V. to submit offers to tender their Notes to Bank of Georgia for cash. Bank of Georgia will determine the purchase price and the aggregate principal amount of Notes to be purchased in accordance with a modified Dutch auction procedure. The invitation was made upon the terms and subject to the conditions contained in the invitation for offers dated 19 April 2011 prepared in connection with the Invitation, and is subject to certain jurisdictional restrictions set out in the Invitation for Offers. In particular, the Invitation was not made and will not be made, directly or indirectly, in or into, or by use of the mails of, or by any means or instrumentality (including, without limitation, facsimile transmission, telex, telephone, email and other forms of electronic transmission) of interstate or foreign commerce of, or any facility of a national securities exchange of, the United States, and no offer of Notes may be made by any such use, means, instrumentality or facility from or within the United States, or to U.S. persons or by persons located or resident in the United States. In addition, the communication of the invitation for offers and any other documents or materials relating to the invitation was not made, and such documents and/or materials have not been approved by, an authorised person for the purposes of section 21 of the Financial Services and Markets Act 2000. Bank of Georgia currently holds approximately 26.16% of the aggregate principal amount of Notes outstanding, being US$52,318,000 in aggregate principal amount.

Corporate Governance

Georgia has not adopted a code of corporate governance. Bank of Georgia has, however, put in place a framework for corporate governance, as embodied in its Charter, which it believes is suitable for a company of its size and nature. Bank of Georgia's Charter is available on its website at www.bog.ge/ir/.

RISK FACTORS

The following discussion sets forth certain risks and uncertainties that Bank of Georgia believes are material. If any of the following risks actually occur, the Bank's business, financial condition, results of operations or prospects could be materially adversely affected. The risks and uncertainties described below may not be the only ones the Bank faces. Additional risks and uncertainties, including those that the Bank is currently not aware of or deems immaterial, may also result in decreased revenues, incurred expenses or other events that could result in a decline in the value of Bank of Georgia's securities.

Emerging Market Risks

The Bank has its principal banking operations in Georgia and certain business operations and assets in Ukraine and Belarus (Georgia, Ukraine and Belarus together, the "**Principal Markets**"). Higher risks associated with investing in securities involving emerging markets include, but are not limited to, higher volatility, limited liquidity, a narrow export base, current account deficits and changes in the political, economic, social, legal and regulatory environment. Emerging economies, such as the Georgian, Ukrainian and Belarusian economies, are subject to rapid change and are particularly vulnerable to market conditions and economic downturns elsewhere in the world and the information set out in this Annual Report may become outdated relatively quickly. Companies operating in emerging markets are exposed to reduced liquidity and increased financing costs. Availability of credit to companies operating in emerging markets is significantly influenced by the prevailing levels of investor confidence in those markets and any factors which affect the levels of investor confidence in those markets could affect the availability and/or price of financing for companies operating in emerging markets, such as Bank of Georgia.

Emerging markets may also experience more instances of corruption of government officials and misuse of public funds than more mature markets. These risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Georgia, Ukraine and Belarus, including elements of information provided in this Annual Report.

Risks Relating To the Bank's Business

The Bank's financial condition and business prospects are affected by global and local economic and market conditions

The global banking sector and financial markets have faced significant volatility, dislocation and liquidity constraints since the onset of the global financial crisis in the autumn of 2007. In 2007, dramatic declines began in the housing market in the United States, as well as in a number of other countries, and such declines have substantially worsened since September 2008. Many developed economies entered recession and growth slowed in many emerging economies, with serious adverse consequences for asset values, employment, consumer confidence and levels of economic activity. The financial services industry faced extraordinary turbulence and suffered a shortage of liquidity, lack of funding, pressure on capital and extreme price volatility across a wide range of asset classes. In response to the financial crisis affecting the global banking sector and financial markets, many governments and central banks have announced, and in many cases begun to implement, significant rescue packages, which include, among other things, the recapitalisation of banks through the state purchase of common and preferred equity securities, the state guarantee of certain forms of bank debt, the purchase by the state of distressed assets from banks and other financial institutions and the provision by the state of guarantees of distressed assets held by banks and other financial institutions. Despite these programmes, the volatility and market disruption in the global banking sector has continued and there can be no assurance as to when all of these programmes will be fully implemented and, when and if implemented, what impact they will have on the financial markets, nor whether further measures will be required in addition to those already implemented or announced. Furthermore, there can be no assurance that such measures will succeed in returning stability to the global banking sector and financial markets in the short term or beyond.

The financial crisis affecting the global banking sector and financial markets has impacted the Georgian, Ukrainian and Belarusian economies and, in turn, the Bank's financial condition and results of operations. Although the economic conditions in the Principal Markets have improved since the beginning of the second half of 2009 and the Bank has returned to profit in 2010, the Bank's financial condition and business prospects are likely to continue to be adversely affected by global and local economic and market conditions. A worsening of these conditions in the Principal Markets may exacerbate the impact of these difficult market conditions on the Bank and other financial institutions and could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's financial condition and business prospects may be adversely affected if it fails to grow its loan portfolio or fails to properly manage its loan portfolio

In response to the increased volatility of the financial markets globally and in Georgia, and due to concerns regarding the decreasing credit quality of borrowers, the Bank implemented a conservative liquidity and credit management policy in 2008 through 2009 which involved, among other things, reducing the levels of the Bank's lending and focusing on maintaining adequate funding levels. This, combined with a reduction in demand from customers following the economic downturn, resulted in a 14.8% decline in the Bank's gross loan portfolio from GEL 2.1 billion in 2008 from GEL 1.8 billion in 2009. The latest data published by the National Statistics Office shows that the Georgian economy bottomed out in the second half of 2009 and continued to recover in the first half of 2010, as gross domestic product ("**GDP**") rose in the third and fourth quarters of 2009 and the first half of 2010. Recognising that there had been a recovery in the Georgian economy in the second half of 2009, the Bank implemented a slightly less conservative liquidity management policy in 2010 and its gross loan portfolio increased to GEL 2.5 billion as at 31 December 2010.

As global and local conditions continue to improve, the Bank intends to increase its lending activity in order to increase its interest income on loans to customers and to adjust its credit risk management policies and procedures accordingly. However, there can be no assurance that the Bank will succeed in increasing its loan portfolio or that it will do so at the right price. Any failure to increase the loan portfolio, or to increase it at the right price, could have an adverse impact on the level of the Bank’s interest income on loans to customers and therefore the Bank’s business in the future. However, if the Bank does succeed in growing its loan portfolio, this will further increase the Bank’s credit risk exposure and put additional pressure on its loan monitoring and control procedures. Any failure to manage the Bank's growing loan portfolio while maintaining the quality of its assets through effective credit risk policies could require further provisioning and increase non-performing loan levels and/or write-offs, which may have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

In addition, management of the Bank's loan portfolio growth will require, among other things, continued development of the Bank's financial and information management systems, successful implementation of its new information systems, such as its new core banking system (TEMENOS (SIX: TEMN) T24), loan origination, management and administration systems for the Bank and its banking subsidiaries (being CRIF/StrategyOne, Megapolis and Clever, respectively) and its talent management system (Softscape), and the ability to manage risk and business processes. If the Bank fails to successfully develop its financial and information management systems in line with any growth in its loan portfolio, or fails to manage its risk and business processes in line with any such growth, this may have material adverse effect on its business, financial condition, results of operations or prospects.

Bank of Georgia is required to comply with Georgian banking regulations and mandatory financial ratios, lending limits and other economic ratios set by the NBG. If Bank of Georgia breaches any applicable banking regulations, mandatory financial ratios, lending limits and other economic ratios, this could have a material adverse effect on the Bank.

Bank of Georgia is required to comply with Georgian banking regulations and requirements. In addition, the NBG is authorised to set mandatory capital adequacy ratios, lending limits and other economic ratios in Georgia which Bank of Georgia is required to comply with. According to Georgian banking regulations, Bank of Georgia is required to, among other things, comply with minimum reserve requirements and mandatory financial ratios and regularly file periodic reports. The Georgian authorities, including the NBG, have the right to, and do, conduct periodic inspections of Bank of Georgia's operations throughout each year. If, in the future, Georgian banking regulations or the mandatory financial ratios, lending limits and other economic ratios set by the NBG change and Bank of Georgia is unable to comply with them, or any of them, or Bank of Georgia breaches any banking regulations, mandatory financial ratios, lending limits, other economic ratios, the NBG may impose penalty sanctions or temporary administration on Bank of Georgia, or attach certain conditions and/or limitations to, or ultimately, if the NBG considers the breach in question to be particularly significant, revoke, the general banking licence of Bank of Georgia which may have a material adverse effect on the Bank's business, financial condition, results of operations or prospects or prevent it from carrying on its banking activities (see "— The Bank's business depends on it having a licence for all of its banking and other operations.) If Bank of Georgia loses or breaches any of its licences, or fails to obtain any further licences that it may be require in the future, this could have a material adverse affect on the Bank" below).

The Bank's business depends on it having a licence for all of its banking and other operations. If the Bank loses or breaches any of its licences, or fails to obtain any further licences that it may require in the future, this could have a material adverse effect on the Bank.

All banking operations and various related operations in Georgia require a general banking licence from the NBG. Bank of Georgia has a current licence for all of its banking and other operations. Although Bank of Georgia believes that it is currently in compliance with its existing material licence and reporting obligations to the NBG and otherwise, there is no assurance that Bank of Georgia will be able to maintain the necessary licence or obtain other required licences in the future.

The loss of a licence, a breach of the terms of a licence by the Bank or a failure to obtain any further licences that may be required in the future could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. If the NBG revokes Bank of Georgia's general banking licence, then Bank of Georgia will be unable to accept deposits, which would severely restrict its ability to continue to operate and could ultimately lead to Bank of Georgia's liquidation.

The Bank faces certain risks associated with conducting international operations

The Bank has made investments in countries of the Commonwealth of Independent States (the "**CIS**"), in particular Ukraine and Belarus. The Bank's international presence exposes it to risks that it would not face as a purely domestic bank, including certain political and economic risks, compliance risks, liquidity risks, foreign currency exchange risk as well as the risk of failure to market adequately to potential customers in other countries. By way of example, the Bank'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 BG Bank, the Bank's subsidiary in

Ukraine, as a result of a weak economic environment in Ukraine and high loan impairment charges in respect of BG Bank in 2008 and 2009 (see "— The Bank's financial condition and business prospects are affected by global and local economic and market conditions"). In view of the significant deterioration in the quality of the loan portfolio in BG Bank, Bank of Georgia sold 80% of its equity interest in BG Bank on 18 February 2011.

To the extent the Bank expands its international operations further in the future, it will become exposed to additional risks in other countries. Any failure to manage such risks may cause the Bank to incur increased liabilities and have a possible negative impact on the Bank's financial performance in respect of such operations.

The Bank depends upon its ability to access financial resources whenever required to meet its obligations.

The Bank faces the risk that it will be unable to meet its payment obligations when they fall due (under normal and stress circumstances), known as liquidity risk. The Bank tries to manage its liquidity risk by, among other things, maintaining a diverse funding base comprising short-term sources of funding (including core retail and corporate customer deposits) and longer-terms sources of funding (including borrowing from international financial institutions ("**IFIs**"), sales and purchases of securities, interbank borrowing and lending, borrowing from the central banks in the Principal Markets, issuing debt securities and cash flow). However, during the economic downturn, the costs of borrowing in the wholesale debt markets increased and the debt capital markets were effectively closed to banks in emerging markets. As a result, IFIs became the principal sources of long-term funding for the Bank. In addition, the economic downturn (and, in the case of Georgia, the Conflict) resulted in a reduction in the Bank's sources of short-term funding as deposits in the banking systems in the Principal Markets in the second half of 2008 and the first half of 2009 decreased.

In the future, the Bank aims to continue attracting deposits in its Principal Markets and internationally, as well as diversifying its funding sources by accessing the international and Georgian debt markets. However, if the Bank experiences any future unanticipated decreases in customer deposits and/ or unexpected withdrawals of deposits, or any difficulties in accessing the international and Georgian debt markets and/or IFI funding to an extent sufficient to meet its funding needs, including the refinancing of outstanding debt falling due, or maturity mismatches between the Bank's assets and liabilities this may, together, or separately, have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's funding levels also affect the Bank's ability to comply with the mandatory financial ratios, lending limits, other economic ratios and minimum regulatory requirements set by the NBG. However, if, in the future, due to the Bank's inability to meet its funding needs, Bank of Georgia is unable to comply with some or all of the mandatory financial ratios, lending limits, other economic ratios and minimum regulatory requirements set by the NBG, the NBG may impose penalty sanctions or temporary administration on Bank of Georgia, or attach certain conditions and/or limitations to, or ultimately, if the NBG considers the breach in question to be particularly significant, revoke, the general banking licence of Bank of Georgia which may have a material adverse effect on the Bank's business, financial condition, results of operations or prospects or prevent it from carrying on its banking activities

The Bank is exposed to credit risk in respect of its corporate and retail clients in the Principal Markets and U.S. dollar to Lari exchange rate fluctuations, in particular, can have a significant impact on a client's credit risk

The financial performance of corporates in the Principal Markets is generally more volatile, and the credit quality of such corporates on average is less predictable, than that of similar companies doing business in more mature markets and economies. An accurate assessment of default risk on loans provided to corporate clients may be difficult for the Bank to make due to the unpredictability of economic conditions in the Principal Markets and abroad. Although the operating environment has been improving since the second half of 2009, the Bank continues to face significant credit risk as a result of the economic downturn. Even though the Bank requires regular disclosure of its corporate clients' financial statements, such financial statements may not always present a complete and accurate picture of each client's financial condition. Furthermore, the Bank's corporate clients do not typically have extensive or externally verified credit histories, and their accounts may not be audited by a reputable external auditor. Therefore, notwithstanding the Bank's credit risk evaluation procedures, it may be unable to evaluate correctly the current financial condition of each prospective corporate borrower and to determine accurately the ability of such corporate borrower to repay its loans when due. Similarly, the financial condition of private individuals transacting business with the Bank is difficult to assess and predict as the vast majority of retail borrowers have no or very limited credit history.

While the substantial majority (91.8% as at 31 December 2010) of the Bank's loans to customers are secured by collateral, if a significant number of its corporate or individual borrowers and/or guarantors experience poor financial performance due to a significant deterioration in domestic or regional economic conditions, including a devaluation of the Lari, or volatility in certain sectors of the domestic or regional economies or if their financial condition deteriorates significantly for any reason, this could have an adverse impact on their ability to pay their obligations as they fall due which, in turn, could have a material adverse effect on the Bank's financial performance and results of operations. For example, as the majority (as at 31 December 2010, 75.0%) of the Bank's loans to customers on a standalone basis, were denominated in foreign currencies, (97.3% of these were denominated in U.S. dollars as at 31 December 2010, with the remainder predominantly denominated in Euro), the depreciation of the Lari to U.S. dollar exchange rate in the second half of 2008 (caused by the NBG allowing the Lari to depreciate by 14% against the U.S. dollar in the first two weeks of November 2008) as well as in the first half of 2010 had an adverse impact on the ability of borrowers with Lari incomes to pay amounts due on U.S. dollar denominated loans with the Bank, thereby contributing to a deterioration in the Bank's loan portfolio quality. If there are significant fluctuations in the Lari to U.S. dollar exchange rates in the future, this could have an adverse impact on individual borrowers' ability to pay their obligations as they fall due which, in turn, could have a material adverse effect on the Bank's financial performance and results of operations.

The Bank is exposed to the risk of a decline in, or unstable, collateral values

The main forms of collateral taken by the Bank in respect of corporate lending are charges over real estate properties, inventory and trade receivables and the main form of collateral taken by the Bank in respect of retail lending is a mortgage over residential property. As at 31 December 2010, 91.8% of the Bank's loans to customers were secured by collateral. If there is a decline in real estate values, or other collateral values in the Principal Markets, or if there is a downturn in the real estate market or other collateral markets in the Principal Markets in the future, this will affect the value of the Bank's collateral and its ability to realise the value of that collateral on a timely basis, or at all, which, in turn, could lead to the Bank experiencing lower than expected recovery levels on collateralised non-performing loans ("**NPLs**"). If the Bank experiences lower than expected recovery levels on NPLs in the future, this could have a materially adverse effect on the Bank's financial performance and results of operations.

In addition, declining or unstable collateral prices in the Principal Markets may make it difficult for the Bank to accurately value collateral held by the Bank and, in the future, then-prevailing market conditions may result in significant changes to the fair value of the collateral held by the Bank. If the fair value of the collateral held by the Bank declines significantly in the future, the Bank could be required to record additional provisions and could experience lower than expected recovery levels on collateralised NPLs which could, in turn, materially adversely affect the Bank's financial performance and results of operations.

A decrease in the Bank's loan book quality may have a material adverse impact on the Bank's loan impairment charges, NPLs and Restructured Loans

During 2008 and 2009, the Bank's loan book quality was negatively affected by the economic slowdown in the Principal Markets as well as by the Conflict. This led to the Bank's loan impairment charges being high in 2008 (GEL 122.8 million) and to loan impairment charges remaining high (GEL 118.9 million) in 2009. Although the Bank's loan impairment charges decreased to GEL 49.9 million in 2010 as a result of improved economic circumstances experienced from the second half of 2009 onwards, if the Bank's loan book quality is negatively affected by further economic slowdowns or political instability in the Principal Markets or the Bank implementing less conservative credit risk policies in the future, this could have a material adverse effect on the Bank's financial performance and results of operations.

The Bank invests significant time and effort estimating its allowance for impairment losses. 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 condition 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 NBG regulations and on an analysis of the assets at risk and reflects the amount which, in the judgment of Management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of financial assets. As of 31 December 2010, 2009 and 2008, the Bank's net allowance for impairment losses on loans to customers was GEL 175.5 million, GEL 166.5 million and GEL 106.6 million, respectively, and the Bank's net allowance for loan impairment /gross loan book ratio was 6.9%, 9.1% and 5.0%. The Bank's net allowance for loan impairment losses during 2008, 2009 and 2010 increased principally as a result of the economic slowdown in the Principal Markets as well as the Conflict. If the Bank fails to accurately estimate the impairment allowances in respect of loans and the allowance for impairment losses proves to be inadequate now or in the future, this may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The economic slowdown in the Principal Markets and the Conflict also led to an increase in the Bank's level of NPLs, which are defined as loans more than 90 days overdue (including principal and interest payment). In addition, as part of the Bank's loan portfolio quality improvement measures and borrower debt service improvement measures, the Bank restructured certain loans, including commercial, mortgage and consumer loans. Restructured loans ("**Restructured Loans**") are defined as loans that would otherwise be overdue or impaired (but which are less than 90 days overdue) whose terms (including as to principal and interest payment) have been renegotiated. As of 31 December 2010, NPLs accounted for 4.7% of total gross loans compared to 7.7% and 2.9% as of 31 December 2009 and 2008, respectively. In addition, as of 31 December 2010, Restructured Loans accounted for 4.1% of total gross loans compared to 4.3% and 1.7%, as of 31 December 2009 and 2008, respectively. If the Bank's loan book quality is negatively affected by further developments outside its control in the future, such as further economic slowdowns or political instability in the Principal Markets, this could have an adverse effect on the Bank's level of NPLs and/or Restructured Loans which, in turn, could have a material adverse effect on the Bank's financial performance and results of operations.

If the Bank has any difficulties enforcing its security, this may have an adverse effect on the Bank's results of operations

The Bank obtains security in relation to the substantial majority of its loans made to individuals and legal entities. Pursuant to the laws of the Principal Markets, enforcement of security may require state registration or require perfection through registration or through possession, which can result in unexpected and/or conflicting claims of secured creditors. In addition, pledges over moveable property may be impracticable due to the incapability of the pledgee to restrict the subsequent sale of such moveable property. Any delay or difficulty in perfecting or enforcing pledges may have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's results of operations are significantly affected by its ability to manage risks that are inherent to the banking business

The Bank's business is subject to various risks inherent in the banking business. The Bank is exposed to the risk that it will be unable to meet its payment obligations when they fall due (under normal and stress circumstances), known as liquidity risk. This risk is likely to materialize if the Bank is unable to access financial resources whenever required to meet its obligations (see "— The Bank depends upon its ability to access financial resources whenever required to meet its obligations"). The Bank is also 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 its financial instruments will fluctuate due to changes in market variables. In addition, 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. See "—The Bank is exposed to credit risk in respect of its corporate and retail clients in the Principal Markets and U.S. dollar to Lari exchange rate fluctuations, in particular, can have a significant impact on a client's credit risk". Finally, the Bank is also exposed to operational and legal 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.

If the Bank does not adequately manage its exposure to liquidity risk, market risk and credit risk in the future, this may lead to the Bank suffering financial loss which will, in turn, have an adverse impact on the Bank's results of operations. In addition, if the Bank fails to adequately manage the operational risks that it faces and, as a result, the Bank experiences systems failures, human errors or fraud, or other external events affect the Bank, this may cause damage to the Bank's reputation, have legal or regulatory implications for the Bank, or lead to it suffering financial loss, any of which may, in turn, have a material adverse impact on the Bank's business, financial condition, results of operations and prospects.

The Bank's results and its ability to comply with certain Basel I and/or NBG financial ratios are significantly affected by currency fluctuations and, in particular, currency fluctuations affecting the Lari, Hryvnia and Belarusian Rouble.

The Bank's operations are significantly affected by fluctuations in the Lari to U.S. dollar exchange rate as the majority of the Bank's loans to customers on a standalone basis are denominated in foreign currencies (75.0% as at 31 December 2010, of which 97.3% were denominated in U.S. dollars). 100% (as at 31 December 2010) of its foreign currency denominated loans are in its risk weighted assets and the majority (70.0% as at 31 December 2010, 84.5% of which are in U.S. dollars) of its interest-earning assets and (77.5% as at 31 December 2010, 83.9% of which are in U.S. dollars) of its interest-bearing liabilities are in foreign currencies, which in turn impacts its net interest income results. As of 31 December 2010, 25.3% of the Bank's net loans to customers were denominated in GEL, while 32.3% of its deposits were denominated in GEL. The Bank's operations are also significantly affected by the Lari to Hryvnia and Lari to Belarusian Rouble exchange rates as these affect the value of the Bank's equity interests in its Ukrainian and Belarusian subsidiaries on a consolidated basis and its ability to comply with the following mandatory financial ratios: (i) the Basel I Total Capital Adequacy Ratio, calculated on a consolidated basis; (ii) any ratios using Basel I Total Regulatory Capital, as a component; and (iii) any ratios using total consolidated shareholders' equity of the Bank as a component.

Partly in response to the increased demand for foreign currencies during the months following the Conflict and partly as a result of the downturn in the global economy and its impact on the Georgian economy (including a reduction in FDI, lower remittances to Georgia from abroad and a slowing of exports), the NBG allowed the Lari to depreciate by 14% against the U.S. dollar in the first two weeks of November 2008. In 2009, the Lari stabilised and depreciated by

1.1% as compared to 4.7% in 2008. In 2010 the Lari depreciated by 4.7% according to the NBG. As of 20 April 2011, the Lari appreciated by 7.9% according to the NBG. As a result of the depreciation of the Lari against the U.S. dollar at the beginning of November 2008, the Bank suffered from deterioration in certain of its capital adequacy ratios, including Basel I and NBG mandatory capital adequacy ratios in 2008 and 2009. In addition, depreciations in the Lari to U.S. dollar and Euro exchange rates in the second half of 2008 as well as in the first half of 2010 contributed to deterioration in the Bank's loan portfolio quality as it affected the ability of borrowers with Lari incomes to pay amounts due on foreign currency loans with the Bank. Furthermore, as a result of the deterioration of the economic environment in Ukraine and the devaluation of the Hryvnia by approximately 29% against the Lari in the second half of 2008, the value of the Bank's shareholders' equity decreased upon consolidation of its Ukrainian subsidiaries in the Annual Financial Statements in 2008. The respective unrealized foreign currency translation losses incurred by the Bank during consolidation of its Ukrainian subsidiaries during 2008, mostly BG Bank, amounted to GEL 25.8 million and were recognized in other comprehensive income of the Bank in its 2008 Annual Financial Statements, with no effect on regular earnings per share or fully diluted earnings per share. Moreover, as a result of the deterioration of the economic environment in Belarus and the devaluation of the Belarusian Rouble by approximately 23% against the Lari in the first half of 2009, the value of the Bank's shareholders' equity decreased upon consolidation of its Belarusian subsidiaries in the Annual Financial Statements in 2009. The respective unrealized foreign currency translation losses incurred by the Bank during consolidation of its Belarusian subsidiaries during 2009, mostly BNB, comprised GEL 5.3 million and were recognized in other comprehensive income of the Bank in its 2009 Annual Financial Statements, with no effect on regular earnings per share or fully diluted earnings per share.

Although Management has adopted a conservative approach to the management of the Bank's open foreign currency positions in order to protect against the Bank's foreign exchange risk (as a result of which the Bank's open foreign currency positions have remained low), has set limits on Bank of Georgia's foreign currency positions in accordance with NBG regulations, has partially hedged its exposure to the Belarusian Rouble through a currency SWAP agreement with the Central Bank of Belarus and, in respect of its exposure to other foreign currencies (mainly U.S. dollar and Euro) uses on- and off-balance sheet instruments (such as currency SWAPS and currency options) to hedge respective positions within its subsidiaries, there can be no assurance that these measures will protect against foreign exchange risks. Any additional depreciation of the Lari, Hryvnia or Belarusian Rouble may lead to further erosion of the Bank's regulatory capital and pressure on its capital adequacy ratios, which could adversely affect the Bank's business, financial condition, results of operations and prospects.

Significant changes in interest rates could have a material adverse effect on the Bank's business financial condition, results of operations and prospects

The Bank is exposed to risks resulting from mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets. 9.2% of the Bank's interest-bearing liabilities bear interest at a floating rate, with the rest bearing interest at a fixed rate. 100% of interest-earning assets bear interest at a fixed rate. While the Bank monitors interest rates with respect to its assets and liabilities, believes that its net interest margin (which was 8.1% in 2010 compared to 9.1% and 9.6% 2009 and 2008, respectively) is sufficient to absorb movements in interest rates and hedged its exposure to U.S. dollar floating interest rates for approximately 80% of its long-term floating rate liabilities in June 2009, to the extent the Bank is unable to pass on increases in interest rates to its customers or hedge its exposure, interest rate movements may adversely affect the Bank's financial position. The Bank's results of operations depend to a significant extent on its net interest income. Although, currently, net interest margins in the Principal Markets are generally higher than those in most Western jurisdictions, interest rates are highly sensitive to many factors beyond the Bank's control, including the reserve policies of the central banks in the Principal Markets and domestic and international economic and political factors. There can be no assurance that the Bank will be able to protect itself from the negative effects of future interest rate declines. Any declines in the market interest rates, global benchmark rates and/or increases in rates payable on deposits could lead to a reduction in net interest income and net interest margin. Such a reduction in net interest income and net interest margin could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

If the Bank's cost control measures fail to result in adequate cost savings, or if the Bank is unable to dispose of its non-core assets in a timely fashion, on commercial terms acceptable to the Bank or at all, this may have a material adverse impact on the Bank

The Bank continues to implement a cost control programme as one of the Bank's strategic priorities for 2011. As part of this strategy, during 2009 and 2010 the Bank closed certain branches in Georgia and Ukraine, optimised its staff levels in the Principal Markets and focused on operational efficiencies and improvement of delivery channels. In the event that these cost control measures fail to result in the cost savings anticipated by the Bank, this could have a material adverse effect on the Bank's financial condition and prospects.

As part of the Bank's restructuring of its non-core asset management business, the Bank sold its entire equity interest in GTAM in September 2009 and plans to continue to explore its options to dispose of other non-core assets and non-performing assets over the next two to three years, such as BG Bank, Liberty Consumer and SB Real Estate. Achievement of the Bank's disposal strategy will be dependent on a number of conditions beyond the Bank's control, including stabilisation of the global financial markets and global economic recovery as well as political and economic stability in the Principal Markets. There can be no assurance that disposals will be completed in a timely fashion, on commercial terms acceptable to the Bank, or at all, or will result in the anticipated benefits to the Bank's business, or will not result in unforeseen liabilities and losses. In the event that planned cost control measures fail to result in the cost savings anticipated by the Bank, or planned disposals are delayed, not consummated or result in unforeseen liabilities, this could have a material adverse effect on the Bank's financial condition and prospects.

The Bank faces competition in the Principal Markets in which it operates

As of 31 December 2010, there were 19 commercial banks licensed to operate in Georgia, 16 of which had foreign capital investment and 2 of which were branches of non-resident foreign banks. Bank of Georgia competes with a number of these banks, including TBC Bank, VTB Bank Georgia, ProCredit Bank, Cartu Bank, Bank Republic and HSBC. In particular, as HSBC has a strong trade finance presence in Georgia, Bank of Georgia faces competition from HSBC in relation to its trade financing activities and, as ProCredit Bank has a large market share in respect of small and medium enterprise ("**SME**") and micro finance loans, Bank of Georgia faces competition from ProCredit Bank in relation to SME and micro financing in Georgia. 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 Bank competes with a wide range of local and international banks.

Some of the banks with which the Bank competes may have greater access to sources of funding than the Bank because they are subsidiaries or branches of foreign banks and this may have an adverse effect both on the Bank's ability to price as aggressively as those banks and its ability to retain and/or grow its loan portfolio in the future. If the Bank is unable to continue to compete successfully in the Principal Markets in the future, or to execute its business strategy, this could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

If any of the Bank's information technology systems prove to be insufficient to meet the needs of the Bank's business, or the Bank suffers a failure or shutdown of its information technology systems (whether permanent or temporary), this may have a material adverse effect on the Bank

The Bank relies heavily on information systems to process a large number of transactions efficiently and accurately and is currently upgrading a number of its information systems. The Bank has started to introduce a new core banking system in Georgia (TEMENOS (SIX: TEMN) T24), as well as loan origination, management and administration systems for the Bank and its banking subsidiaries (being CRIF/StrategyOne, Megapolis and Clever, respectively), and has largely completed the deployment of a talent management system (Softscape). However, there can be no assurance that the new systems will be implemented in a timely manner, or without cost overruns, that the new systems will address all of the shortcomings of the current systems or will be sufficient to meet the needs of the Bank's business. In addition, although the Bank has developed back-up systems and a fully-equipped disaster recovery centre, and may continue some of its operations through branches in case of emergency, if the Bank's information technology systems fail, even for a short period of time, then it could be unable to serve some or all of its clients' needs in a timely manner and could lose business as a result. A temporary shutdown of the Bank's information systems could result in unexpected costs that may be required for information retrieval and verification. Any failure or interruption of the Bank's information technology systems could result in failures or interruptions in the Bank's decision-making processes and risk management procedures or a disruption in the Bank's business activities, any of which could have a material adverse effect on its business, financial condition, results of operations and prospects. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that Bank of Georgia will be unable to comply with its obligations as a company with securities admitted to the Official List.

If Bank of Georgia and/or its subsidiaries breach any of their respective restrictive covenants contained in their loan agreements this could constitute a default under the relevant loan agreement and could trigger a cr default under other agreements to which such entity is party

Bank of Georgia and/or its subsidiaries are parties to a number of loan agreements that contain covenants imposing significant operating and financial restrictions on it/them as borrower. These restrictions require Bank of Georgia and/or its subsidiaries, among other things, to maintain compliance with specified financial ratios and significantly limit, and in some cases restrict, among other things, the ability of Bank of Georgia and certain of its subsidiaries to incur additional indebtedness, create liens on assets, undertake corporate reorganisations, enter into business combinations or engage in certain transactions with companies within the Bank. From time to time in the past, Bank of Georgia and its subsidiaries have breached 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 Management (with the passage of time or otherwise) may qualify as non-performing loans under (i) and/or ii)) below 10% of its/their Tier 1 Capital. While Bank of Georgia and its subsidiaries have obtained waivers from the relevant lenders in respect of its/their past breaches, there can be no assurance that such waivers will be granted for any breaches that may occur in the future.

A failure by Bank of Georgia and/or its subsidiaries to comply with the covenants in their loan agreements may constitute a default under the relevant agreements and could trigger a cross-default under other agreements to which such entity is a party, including, in the case of Bank of Georgia, its outstanding Eurobonds. In the event of such a default, the Bank's obligations under one or more of these agreements could, under certain circumstances, become immediately due and payable, which could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

The Bank depends on its key management and qualified personnel

The Bank's ability to continue to retain, motivate and attract qualified and experienced banking and management personnel is vital to the Bank's business. There can be no assurance that the Bank will be able to successfully recruit and retain the necessary qualified personnel. The loss or diminution in the services of members of the Bank's senior management team or an inability to recruit, train and/or retain necessary personnel could have a material adverse effect on its business, results of operations, financial condition and prospects.

Risks Relating To Georgia and the Other Principal Markets

Political and governmental instability in Georgia could adversely affect the local economy and Bank of Georgia's business

Since the restoration of its independence in 1991, Georgia has undergone a substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. Political conditions in Georgia were highly volatile in the 1990s and in the early part of the 2000s. Since January 2004, following the peaceful uprising in November 2003, known as the "Rose Revolution", Mikheil Saakashvili has served as President of Georgia. The first few years of President Saakashvili's term in office were marked by relative political stability and the introduction of policies oriented towards the acceleration of political and economic reforms. However, President Saakashvili's term has also been marked by a number of high-profile events since 2006, which have triggered a wave of popular protests.

In November 2007, after five days of demonstrations in Tbilisi, a two-week state of emergency banning all privately-owned broadcast media and public gatherings was imposed. In January 2008, President Saakashvili was re-elected with 53.5% of the vote and the United National Movement Party won the majority of votes in the parliamentary elections held in May 2008. Following the further deterioration of already strained political relations between Russia and Georgia, the Conflict took place, after which Russia formally recognised the independence of South Ossetia and Abkhazia. See "—Regional Tensions may have a negative effect on the Georgian economy and on the business, results of operations and financial condition of the Bank ".

In April 2009, the Georgian opposition renewed protests demanding President Saakashvili's resignation, which culminated in large-scale public demonstrations. In agreement with the opposition parties, municipal elections were held in Georgia on 30 May 2010 in order to elect (through direct voting) municipal council members throughout the country and, for the first time in Georgia's history, a Mayor of the capital city, Tbilisi. The ruling United National Movement Party won the municipal elections, with approximately 65% of the vote, and Giorgi Ugulava (the candidate for the United National Movement Party) was elected as Mayor of Tbilisi with approximately 55% of the vote.

Although President Saakashvili's United National Movement party won the majority of votes in the municipal council elections in May 2010, there can be no assurance that current Government policies or economic or regulatory reforms will continue at the same pace or at all. President Saakashvili and the Government face several challenges, including resolving the status of Abkhazia and South Ossetia, the improvement of relations with Russia, the implementation of further economic reforms and the maintaining of a political consensus. No assurance can be given that reform and economic growth will not be hindered as a result of the disruption of Government continuity or any other changes affecting the stability of the Government or as a result of a rejection or reversal of reform policies. Political instability in Georgia could have negative effects on the economy and thus could have a material adverse effect on Bank of Georgia's business, financial condition and results of operations.

Regional tensions may have a negative effect on the Georgian economy and on the business, results of operations and financial condition of Bank of Georgia

Since the restoration of its independence in 1991, Georgia has had ongoing violent disputes with local separatists in Abkhazia and South Ossetia regions and with Russia. These disputes have led to sporadic violence and breaches of peace-keeping operations. In August 2008, the conflict with South Ossetia escalated as Georgian troops engaged with local separatist fighters and Russian forces that had crossed the border. In the days that followed the initial outbreak, Georgia declared a state of war as Russian forces launched bombing raids deep into Georgia, targeted and destroyed Georgian infrastructure, blockaded part of the Georgian coast, took control of Tskhinvali (the South Ossetian administrative centre) and the Abkhazia region and landed marines on the Abkhazia coast. After five days of heavy fighting, the Georgian forces were defeated, enabling the Russians to enter Georgia uncontested and occupy the cities of Poti, Gori, Senaki and Zugdidi. In August 2008, Georgia and Russia signed a French-brokered cease-fire that called for the withdrawal of Russian forces, but tensions continue. Russia's subsequent recognition of the independence of Abkhazia and South Ossetia was condemned by Georgia, and Georgia withdrew from the CIS in August 2009.

Russia views the North Atlantic Treaty Organisation's ("**NATO's**") eastward expansion, potentially including ex-Soviet republics, such as Georgia, as hostile. Any future deterioration or worsening of Georgia's relationship with Russia, including any major changes in Georgia's relations with Western governments and institutions, in particular in terms of national security, Georgia's importance to Western energy supplies, the amount of aid granted to Georgia or the ability of Georgian manufacturers to access world export markets, may have a negative effect on the Georgian economy and on the business, results of operations and financial condition of Bank of Georgia.

Economic instability in Georgia in the future could have a material adverse effect on Bank of Georgia's business, results of operations, financial condition and prospects

Since the dissolution of the Soviet Union in the early 1990s, Georgia's society and economy have undergone a rapid transformation from a one-party state with a centrally-planned economy to a pluralist democracy with a market economy. This transformation has been marked by periods of significant instability resulting at various times in declines in GDP, hyperinflation, an unstable currency, high levels of state debt relative to GDP, the existence of a "black" and "grey" market economy, high unemployment and underemployment and the impoverishment of a large portion of the Georgian population.

The Conflict and the global financial crisis have affected Georgia through economic slowdown, as well as a decrease in exports and private capital inflows. According to the National Statistics Office, in 2010 Georgia's real GDP grew by an estimated 6.4% compared to 3.8% decline in real GDP in 2009 and 2.3% growth in real GDP in 2008. In 2010, an estimated U.S.$553 million of FDI had been received in Georgia, compared to U.S.$759.1 million in 2009 and U.S.$1,564.0 million in 2008, according to the National Statistics Office. The Lari depreciated by 14% relative to the U.S. dollar as a result of the NBG's one-off correction in November 2008, which also resulted in the depreciation of the Lari relative to other major currencies. Between 1 January 2010 and 1 January 2011, the Lari further depreciated by approximately 4.7% and appreciated in 2011 by approximately 7.9% by 20 April 2011, according to the NBG (see "—Risks Relating To the Bank's Business—The Bank's results and its ability to comply with certain Basel I and/or NBG financial ratios are significantly affected by currency fluctuations and, in particular, currency fluctuations affecting the Lari, Hryvnia and Belarusian Rouble"). Although the foreign exchange market has stabilised and a portion of donor pledges (see "—Any change in the levels of FDI or foreign aid could have an adverse effect on the Georgian economy and therefore the Bank's business ") have been committed and/or distributed, resulting in greater economic stability, there can be no assurance that the depreciation of Lari will not continue or that FDI will not decrease in the future.

A material depreciation of the Lari relative to the U.S. dollar or other currencies, changes in monetary policy, inflation, delays in private capital inflows, reduction of remittances, protracted suspension of trade activities or other factors could adversely affect Georgia's economy in the future which could, in turn, result in a material adverse effect on Bank of Georgia's business, results of operations, financial condition and prospects.

Any change in the levels of FDI or foreign aid could have an adverse effect on the Georgian economy and therefore Bank of Georgia's business

The Georgian economy is to a certain extent dependent upon FDI and foreign aid. FDI reduced significantly as a result of the Conflict and the global financial crisis, dropping by 51.5% between 2008 and 2009 (see "—Economic instability in Georgia in the future could have a material adverse effect on Bank of Georgia's business, results of operations, financial condition and prospects").

On 22 October 2008, the European Commission and World Bank sponsored a Georgia donors' conference in Brussels in order to rally support for Georgia in the wake of the Conflict. At the conference, a total of over U.S.$4.5 billion was pledged to Georgia by the European Community, EU Member States, the United States, Japan, the European Bank for Reconstruction and Development (the "**EBRD")**, the European Investment Bank ("**EIB**"), the Asian Development Bank ("**ADB**"), the World Bank and the International Finance Corporation (the "**IFC**"), among others, with disbursements to be made within three years. The Georgian banking sector was specifically allocated over U.S.$852.0 million from the total pledges.

By the end of November 2010, Georgia had entered into contractual agreements in respect of its receipt of around U.S.$4.0 billion of the U.S.$4.5 billion pledged, of which U.S.$2.0 billion had already been disbursed. The donor money is intended to help stabilise the Georgian economy and, in particular, provide funding to the Georgian banking sector. However, there can be no assurance that Georgia will receive the total amount pledged, or that the donor money will result in the expected improvements to the Georgian economy. If Georgia does not receive the total amount pledged and the amount pledged is not replaced by a corresponding increase in FDI, or the donor money and/or FDI does not result in the expected improvements in the Georgian economy, this could adversely affect the Georgian economy as a whole and thus Bank of Georgia's business

A lack of growth or instability in the Georgian domestic currency market may adversely affect the development of Georgia's economy and therefore Bank of Georgia's business

Although the Lari is a fully convertible currency, there is generally no market outside Georgia for the exchange of the 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 2010, the total volume of trading turnover in the Lari-U.S. dollar market amounted to U.S.$2.9 billion compared to U.S.$2.2 billion in 2009 and U.S.$4.8 billion in 2008. The official exchange rate of the Lari against the U.S. dollar is fixed at the Tbilisi Interbank Foreign Exchange, which is used to determine the official exchange rate of the Lari against foreign currencies.

According to the NBG, the NBG had approximately U.S.$2.0 million worth of currency reserves as at 31 December 2010 and 31 December 2009 compared to U.S.$1.46 billion as at 31 December 2008. While the Government believes that the reserves will be sufficient to sustain the domestic currency market in the short-term, there can be no assurance that a relatively stable market will continue indefinitely and a lack of growth of this currency market may hamper the development of Georgia's economy, negatively affect the business of Bank of Georgia's corporate clients, and in turn, Bank of Georgia's business, results of operations, financial condition and prospects.

The uncertainties of the judicial systems in the Principal Markets, or any arbitrary or discriminatory state action taken in the Principal Markets in the future may have an adverse impact on the local economy and therefore on the Bank's business

Each of the Principal Markets, to varying degrees, is still developing an adequate legal framework required for the proper functioning of a market economy. For example, several fundamental Georgian civil, criminal, tax, administrative and commercial laws have only recently come into effect. Furthermore, the continued significant changes in Georgian legislation have led to confusion regarding the proper interpretation and implementation of laws and regulations due to the lack of sufficient time in which to develop a consistent body of practice. The recent nature of much of Georgian legislation and the rapid evolution of the Georgian legal system, place the quality, the enforceability and underlying constitutionality of laws in doubt and result in ambiguities and inconsistencies in their application.

In addition, the court system is understaffed and under-funded, and judges and courts in Georgia are generally inexperienced in the area of business and corporate law. Most court decisions are not readily available to the public, and the enforcement of court judgments can, in practice, be difficult in Georgia. Furthermore, state authorities have a high degree of discretion in Georgia and at times may exercise their discretion arbitrarily, in a manner not fully consistent with established laws or regulations or on a selective basis.

The uncertainties of the Georgian judicial system or any arbitrary or discriminatory state action taken in the future could have a negative effect on the economy and the Bank's ability to operate in Georgia could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to local laws and regulations. Similar risks are characteristic of the Ukrainian and Belarus legal systems.

There can be no assurance that Bank of Georgia's corporate governance policies are in line with international standards or that they will comply with such standards in the future

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. As a general matter, Georgian companies do not have corporate governance procedures that are in line with international standards, including the standards set forth in the UK Corporate Governance Code of May 2010, the US Sarbanes-Oxley Act of 2002 or with generally accepted international standards, and there can be no assurance that Bank of Georgia's corporate governance policies will comply with such standards in the future.

If, in the future, the Bank fails to comply with any applicable regulations relating to, or the Bank is associated with, money laundering and/or terrorist financing, this could have an adverse impact on the Bank's reputation, result of operations, financial conditions and prospects

Although the Bank has implemented a comprehensive anti-money laundering ("**AML**") and "know-your-customer" ("**KYC**") policy, and is in the process of implementing such policies throughout its financial subsidiaries (including insurance and brokerage), that are monitored by its AML Compliance Department, and adheres to all requirements under applicable legislation aimed at preventing it being used as a vehicle for money laundering, there can be no assurance that these measures will be completely effective. If, in the future, the Bank fails to comply with timely reporting requirements or other AML regulations and/or is associated with money laundering and/or terrorist financing, its reputation, result of operations, financial conditions and prospects may be adversely affected. In addition, involvement in such activities may carry criminal or regulatory fines and sanctions.

Uncertainties of the tax systems in the Principal Markets may result in the Bank facing tax adjustments and/or fines in the future

In the Principal Markets, 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 Bank 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 Bank believes that it 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 Bank facing tax adjustments and/or fines.

Statistical information relating to Georgia may be more limited in scope and published less frequently than in the case of other countries

A range of ministries and institutions, including the National Statistics Office, the Ministry of Finance, the NBG and the Ministry of Economy and Sustainable Development, produce statistics relating to Georgia and its economy. Georgia adheres to the International Monetary Fund ("**IMF**") General Data Dissemination Standards. However, these statistics may be more limited in scope and published less frequently than in the case of other countries such that adequate monitoring of key fiscal and economic indicators may be difficult. Statistical data appearing in this Annual Report has, unless otherwise stated, been obtained from public sources and documents. Similar statistics may be available from other sources, but the underlying assumptions, methodology and, consequently, the resulting data may vary from source to source.

Possible non-enforceability of foreign judgements and arbitral awards

On the basis of certain precedents established by foreign judiciaries, it may not be possible for investors to effect service of process against Bank of Georgia in courts outside Georgia or in a jurisdiction to which Bank of Georgia has not explicitly submitted. Pursuant to Article 68.2 of the Law of Georgia on Private International Law foreign court judgments against Bank of Georgia will not be recognised and enforceable in Georgian courts if: (i) the matter is within 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 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. As a result, the Supreme Court of Georgia will decide whether to recognise a foreign judgment according to whether the relevant jurisdiction recognises a Georgian judgment, or by application of Article 68.3 of the Law of Georgia on Private International Law, which permits recognition of a foreign judgment even if the relevant foreign state does not recognise Georgian judgments so long as the judgment does not relate to property rights and the courts of Georgia do not have exclusive jurisdiction over the matter. 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 Bank of Georgia. 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, as well as unofficial political resistance, may significantly delay the enforcement of any such judgment or potentially deprive a claimant of effective legal recourse for claims.

Holders of GDRS may enforce their rights by arbitration. Georgia is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (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 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, Georgian courts' inability to enforce such orders and unofficial political resistance, 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 Deposit Agreement relating to the GDRs and the Notes and the related 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 Audited Financial Statements are published as part 2 of the Annual Financial Report and will be available on the Bank's website at www.bog.ge/ir.
The material presented above is not a substitute for reading the full Annual Report and Accounts .The Annual Report and Accounts for the year ended 31 December 2010 will be available on the Bank's website.