This Prospectus comprises a Prospectus relating to Bank of Georgia Holdings Plc (**"BGH"**) and has been prepared in accordance with the Prospectus Rules of the Financial Services Authority (the **"FSA"**) made under Section 73A of the Financial Services and Markets Act 2000 (as amended) (the **"FSMA"**), has been filed with and approved by the FSA and will be made available to the public as required by the Prospectus Rules.

Shortly before the Expiration Time (as defined below), application is expected to be made to the FSA for up to 36,512,553 BGH Offer Shares (as defined below), issued and to be issued in connection with the Offer (as defined below), to be admitted to the premium listing segment of the Official List of the UK Listing Authority (the **"Official List"**) and to the London Stock Exchange plc (the **"London Stock Exchange"**) for such BGH Offer Shares to be admitted to trading on the London Stock Exchange's main market for listed securities (together, **"Admission"**). Admission constitutes admission to trading on a regulated market. It is expected that Admission will become effective, and that unconditional dealings will commence in BGH Offer Shares on the London Stock Exchange, at 8.00 a.m. (London time) on 28 February 2012. **No application has been or will be made, or is currently contemplated, for the BGH Offer Shares to be listed on any other recognised investment exchange.**

BGH and its directors (whose names appear on page 39 of this Prospectus) (the **"BGH Directors"**) accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of BGH and the BGH Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see Part V "Documents Incorporated by Reference" on page 35). This Prospectus shall be read and construed on the basis that such documents are incorporated in, and form part of, this Prospectus.

Existing Holders (as defined below) should read the whole of this Prospectus, including the discussions of certain risk and other factors that should be considered in connection with an investment in BGH Offer Shares. See Part II "Risk Factors".

Recommended Tender Offer by

BANK OF GEORGIA
HOLDINGS PLC

Bank of Georgia Holdings Plc

(incorporated and registered in England and Wales under the Companies Act 2006 with registered number 7811410)

Tender offer (the "Offer") by BGH of one BGH Offer Share for each ordinary share of Joint Stock Company Bank of Georgia (the "Bank" or "Bank of Georgia") whether held in the form of a global depositary receipt (each, a "GDR") or held in the form of an ordinary share (each, a "Bank Share") in connection with the proposed introduction of BGH as the new holding company of the Bank of Georgia group of companies and the proposed application for admission of up to 36,512,553 BGH Offer Shares to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange

Sponsor, Financial Adviser

ING Bank N.V.

Expected ordinary share capital of BGH immediately following Admission (and assuming full acceptance of the Offer and the completion of the Debt Conversion (as defined below) in full)

Issued and Fully Paid	
Number	*Amount*
36,512,553	*£219,075,318*

ING Bank N.V. (**"ING Bank"**), which is authorised and regulated in the United Kingdom by the FSA, is acting as Sponsor and financial adviser for BGH and no-one else in connection with Admission and the Offer. ING Bank will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to Admission or the Offer and will not be responsible to anyone other than BGH for providing the protections afforded to clients of ING Bank, or for providing advice in relation to Admission, the Offer or any other matters described in this Prospectus.

Apart from the responsibilities and liabilities, if any, which may be imposed on ING Bank by FSMA or the regulatory regime established thereunder, ING Bank does not accept any responsibility whatsoever, and makes no representation or warranty express or implied, for the contents of this Prospectus, including its accuracy, completeness or verification or for any other statement made or purported to be made by it, or on its behalf, in connection with BGH, the Bank, Admission or the Offer. ING Bank accordingly disclaims to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

20 December 2011

IMPORTANT NOTICE

No person has been authorised to give any information or make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by BGH. Neither the delivery of this Prospectus nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of BGH since the date of this Prospectus or that the information in this Prospectus is correct as of any time subsequent to its date.

In making an investment decision, each Existing Holder must rely on his, her or its own examination, analysis and enquiry of BGH and the terms of the Offer, including the merits and risks involved. The contents of this Prospectus should not be construed as legal, business or tax advice. Each Existing Holder should consult his, her or its own legal adviser, financial adviser or tax adviser for advice.

Recipients of this Prospectus are authorised to use it solely for the purpose of considering whether or not to accept the Offer and may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering whether or not to accept the Offer. Such recipients of this Prospectus agree to the foregoing by accepting delivery of this Prospectus.

NOTICE TO OVERSEAS HOLDERS

Unless determined by BGH and permitted by applicable law and regulation the Offer will not be capable of acceptance from or within Australia, Canada, Japan, Russia, Ukraine or any jurisdiction where extension or acceptance of the Offer would violate the laws of that jurisdiction (each, a **"Restricted Jurisdiction"**). Accordingly, (unless determined otherwise by BGH in its sole discretion) copies of the this Prospectus, the Tender Offer Proposal, the Form of Acceptance and the Certification Form (together, the **"Tender Offer Documents"**) are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in (including by way of facsimile transmission), into or from a Restricted Jurisdiction and persons receiving the Tender Offer Documents and any accompanying documents (including custodians, nominees and trustees) must not mail or otherwise distribute or send them in, into or from such jurisdictions as doing so may invalidate any purported acceptance of the Offer. The availability of the Offer to persons who are not resident in the United Kingdom may be affected by the laws of their relevant jurisdiction. Such persons should inform themselves about and observe any applicable legal or regulatory requirements of their jurisdiction. If such persons remain in any doubt, such persons should consult their professional adviser(s) in the relevant jurisdiction without delay.

This document does not constitute an offer to sell, or the solicitation of an offer to buy, the BGH Offer Shares in any jurisdiction in which such offer or solicitation is unlawful. The BGH Offer Shares have not been and will not be registered under any of the applicable securities laws of a Restricted Jurisdiction. Subject to certain exceptions, the BGH Offer Shares may not be offered or sold within a Restricted Jurisdiction to any national, resident or citizen of a Restricted Jurisdiction.

NOTICE TO US HOLDERS

The Offer is being made in reliance on, and in compliance with, Rule 14d-1(d) under the Securities Exchange Act of 1934, as amended (the **"Exchange Act"**). The Offer is being made subject to United Kingdom disclosure requirements which are different from certain United States disclosure requirements. In addition, US investors should be aware that this document has been prepared in accordance with a United Kingdom format and style, which differs from the United States format and style. In particular, parts of this document contain information concerning the offer required by UK disclosure requirements which may be material and may not have been summarised elsewhere in the document. Furthermore, the payment and settlement procedure with respect to the Offer will comply with the relevant United Kingdom rules, which differ from United States payment and settlement procedures. BGH will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and the rules and regulations thereunder in connection with the Offer.

BGH Offer Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "Securities Act"), or under any securities laws of any state or other jurisdiction of the United States. BGH Offer Shares may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. BGH Offer Shares have not been approved or disapproved by the US Securities and Exchange Commission (the "SEC"), any other federal or state securities commission in the United States or any other US regulatory authority, nor have any such authorities passed upon or endorsed the merits of the Offer or confirmed the accuracy or determined the adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

The Offer is being made in the United States in reliance on the exemption from the registration requirements of the Securities Act provided by Section 4(2) of that Act. All holders of Bank Shares and GDRs (collectively, **"Existing Securities"**) who intend to accept, or procure the acceptance of, the Offer will be required to complete and execute a Certification Form containing certain acknowledgements, representations, warranties and agreements.

US Holders that certify that they are qualified institutional buyers (**"QIBs"**), as defined in Rule 144A under the Securities Act, or institutional accredited investors, within the meaning of Rule 501(a) under the Securities Act, and otherwise satisfy the requirements set forth in the Certification Form and this Prospectus (**"Participating US Holders"**) will receive BGH Offer Shares in exchange for their Existing Securities in accordance with the terms of the Offer. The BGH Offer Shares will be "restricted securities" within the meaning of the Securities Act, subject to restrictions on transfer that may require Participating US Holders participating in the Offer to bear the financial risks of the BGH Offer Shares for an indefinite period of time. The term "US Holder" is defined in Paragraph 9.16 of Part B of Part XVIII. In order to accept the Offer, Existing Holders must make the certifications as provided in the Certification Form. See Part XVIII "Conditions to and further terms of the Offer".

BGH is incorporated under the laws of England and Wales and the Bank is organised under the laws of Georgia. Some or all of the officers and directors of BGH and the Bank, respectively, are residents of countries other than the United States. In addition, most of the assets of BGH and the Bank are located outside the United States. As a result, it may be difficult for US shareholders to enforce their rights and any claim they may have arising under the US federal securities laws, since BGH is located in a foreign country, and some or all of its officers and directors may be residents of foreign countries. US shareholders may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the US securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a US court's judgment.

At any time when BGH is not subject to Section 13 or 15(d) of the Exchange Act, upon the request of a holder of BGH Offer Shares issued in the Offer, BGH will make available the information required pursuant to Rule 144A(d)(4) under the Securities Act to such holder, or to a prospective purchaser of their BGH Offer Shares designated by such holder, as the case may be, to the extent required to permit compliance by such holder with Rule 144A under the Securities Act in connection with the resale of such security; provided, however, that BGH shall not be required to furnish such information in connection with any request made on or after the date that is one year from the later of the date the BGH Offer Shares were last acquired from BGH or an "affiliate" (as defined under Rule 144 under the Securities Act) of BGH.

Each US Holder is urged to consult its independent professional adviser immediately regarding the tax consequences of acceptance of the Offer. US Holders are urged to read the information set forth in Paragraph 32 ("US Taxation" of Part XXI "Additional Information").

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

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

NOTICE TO HONG KONG HOLDERS

The contents of this document have not been reviewed by any regulatory authority in the Hong Kong Special Administrative Region of the People's Republic of China. Existing Holders are advised to exercise caution in relation to the Offer. If Existing Holders are in any doubt about any of the contents of this document, they should obtain independent professional advice.

This document does not constitute a prospectus (as defined in section 2(1) of the Companies Ordinance (Cap.32 of the Laws of Hong Kong)) or notice, circular, brochure or advertisement offering any securities to the public for subscription or purchase or calculated to invite such offers by the public to subscribe for or purchase any securities, nor is it an advertisement, invitation or document containing an advertisement or invitation falling within the meaning of section 103 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). Accordingly, unless permitted by the securities laws of Hong Kong, no person may issue or cause to be issued this document in Hong Kong, other than to persons who are "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder or in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance or which do not constitute an offer to the public within the meaning of that Ordinance; and no person may issue or have in its possession for the purposes of issue, this document or any invitation or document relating to these securities, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder.

This document is for the exclusive use of the Existing Holders in connection with the Offer, and no steps have been taken to register or seek authorisation for the issue of this document in Hong Kong.

This document is confidential to the person to whom it is addressed and must not be distributed, published, reproduced or disclosed (in whole or in part) by Existing Holders to any other person in Hong Kong or used for any purpose in Hong Kong other than in connection with Existing Holders' consideration of the Offer.

NOTICE TO HOLDERS IN THE EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **"Relevant Member State"**), an offer to the public of any BGH Offer Shares (including by means of a resale or other transfer) may not be made in that Relevant Member State, other than the offer in the United Kingdom contemplated in this Prospectus (this Prospectus having been approved by the UKLA (being the competent authority in the United Kingdom) and which will be published in the United Kingdom in accordance with the Prospectus Directive as implemented in the United Kingdom), except that an offer to the public in that Relevant Member State of the BGH Offer Shares may be made at any time under the following exemptions under the Prospectus Directive, if and as they have been implemented in that Relevant Member State:

- to legal entities which are qualified investors as defined in the Prospectus Directive;
- by BGH to fewer than 100, or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of ING Bank for any such offers; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of BGH Offer Shares shall result in a requirement for BGH to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of the provisions above, the expression an "offer to the public" in relation to any BGH Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offer and the BGH Offer Shares to be offered so as to enable an investor to decide to accept the Offer, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression **"Prospectus Directive"** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression **"2010 PD Amending Directive"** means Directive 2010/73/EU.

INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

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

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PART I

SUMMARY

This summary should be read as an introduction to the full text of this Prospectus. The following summary information has been prepared in accordance with the Prospectus Rules and provides information on BGH, the Bank and the business of the Group and on the risks of investment therein. Any decision to invest in BGH Offer Shares should be based on the consideration of this Prospectus as a whole, including the documents incorporated by reference, and not just this summary. Under the Prospectus Directive (Directive 2003/71/EEC) in each Member State of the European Economic Area civil liability attaches to those persons who are responsible for the summary, including any translations of the summary, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor, under the national legislation of the relevant European Economic Area Member States, might have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Background to and reasons for the Offer

On 5 September 2011, the Bank announced its intention to seek a premium listing of BGH, a public limited liability company newly incorporated in England and Wales, which it is proposed will be the holding company for the group (the **"Group"** being, prior to Admission, the Bank and its subsidiaries; and following Admission, Bank of Georgia Holdings Plc and its subsidiaries, including the Bank and its subsidiaries). Following Admission, the Group intends to seek FTSE Index inclusion. The BGH Directors believe that a premium listing and FTSE Index inclusion will enable the Group to strengthen and broaden its investor base and increase the liquidity of its securities. Furthermore, the Group intends to maintain its robust corporate governance arrangements, which it has further strengthened in anticipation of the Offer and Admission. BGH complies with the Corporate Governance Code, save for section D.1.1 of the Corporate Governance Code.

If the Offer is declared unconditional, the BGH Directors intend that: (i) BGH Offer Shares will be admitted to the premium listing segment of the Official List and admitted to trading on the London Stock Exchange's Regulated Market; (ii) Existing Holders who validly accept the Offer will become shareholders of BGH; and (iii) the Bank will become a subsidiary of BGH. Following Admission the BGH Directors also intend to undertake a court approved reduction of capital which reduces the nominal value of the BGH Offer Shares and either: (i) cancels any share premium account in existence; or (ii) cancels any Class A Shares in issue resulting from the capitalisation of any merger reserve created in connection with the Offer (the **"Reduction of Capital"**) in order to create distributable reserves in BGH. The BGH Directors do not anticipate that the Offer or Reduction of Capital will affect the commercial operations of the Group in any way.

Key terms of the Offer

The Offer is made on the following basis:

- for each Bank Share (whether held directly or through a GDR): 1 BGH Offer Share

The Offer is conditional upon, among other things:

- valid acceptances of the Offer being received (and not, where permitted, withdrawn) by no later than 5.00 p.m. (London time) / 9.00 p.m. (Tbilisi time) / 12.00 noon (New York time) on 24 February 2012 (or such later time(s) and/or date(s) as BGH may decide) (the **"Expiration Time"**) in respect of not less than 80% in nominal value of the Bank Shares and of the voting rights attached to those shares (or such lower percentage as BGH may decide provided that BGH shall have acquired or agreed to acquire Bank Shares carrying in aggregate more than 75% of the voting rights then normally exercisable at a general meeting of the Bank) (the **"Acceptance Condition"**); and
- certain other customary conditions for an Offer of this type.

The Bank Shares in respect of which the Offer is accepted will be acquired by BGH under the Offer fully paid and free from all liens, equities, charges, encumbrances, options, rights of pre-emption and any other third-party rights and interests of any nature whatsoever and together with all rights now and hereafter attaching or accruing on them, including, without limitation, voting rights and the right to receive and retain in full all dividends and other distributions (if any) declared, made or payable on or after the Admission Date.

Upon the Offer being declared wholly unconditional, save for the dilution that will occur if each of IFC and EBRD convert their Convertible Subordinated Loans into Bank Shares immediately prior to Admission, each Participating

Holder who has accepted the Offer in respect of all of their Existing Securities will effectively have the same proportionate direct or indirect interest in the Group as they had immediately prior to the Offer being declared unconditional.

The Offer will lapse unless all of the Conditions have been fulfilled or waived (if capable of waiver) or, where appropriate, have been determined by BGH to be or remain satisfied, by 5.00 p.m. (London time) / 9.00 p.m. (Tbilisi time) / 12.00 noon (New York time) on 31 March 2012 (the **"Long Stop Date"**).

Shareholders and Undertakings to Accept the Offer

As at the date of this Prospectus, in so far as is known to the BGH Directors 48.20% of the existing issued share capital of the Bank (the **"Bank Share Capital"**) is in public hands. Immediately following Admission, assuming full acceptance of the Offer and the completion of the Debt Conversion in full, it is currently anticipated that 53.35% of the fully diluted share capital of BGH (the **"BGH Fully Diluted Share Capital"**) will be in public hands.

Certain Existing Holders have given conditional Irrevocable Undertakings to accept the Offer and certain other Existing Holders have given indicative letters of intent to accept the Offer.

Group Overview

The Group's strategic businesses are retail and corporate banking provided through Bank of Georgia, a universal bank, as well as wealth management. The Bank is the leading bank in Georgia based on total assets (with a 36.1% market share), total gross loans (with a 36.0% market share) and total customer deposits (with a 34.6% market share), each market share being as at 30 June 2011. The following tables set forth selected consolidated figures relating to the Group for the periods specified:

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of US$)*(1)		*(audited)* *(thousands of Lari)*	
Total assets	4,123,324	2,473,499	4,004,922	2,913,429	3,258,907
Loans to customers, net	2,375,110	1,424,781	2,351,697	1,661,331	2,039,022
Amounts due to customers	2,228,505	1,336,836	2,026,308	1,273,130	1,193,129
Total equity	751,761	450,966	693,341	598,417	718,849

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

	For the six months ended 30 June			For the year ended 31 December		
	2011		2010	2010	2009	2008
	(audited)		*(unaudited)*		*(audited)* *(thousands of Lari)*	
	(thousands of Lari)	*(thousands of US$)*(1)				
Profit (loss) for the period	63,745	38,240	36,345	82,667	(98,908)	174

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

As of 30 June 2011, the Bank had one of the largest distribution networks in Georgia, with 143 branches, including full-service flagship branches, service centres and smaller-scale sales outlets, the largest ATM network in Georgia, comprising 408 ATMs, 86 self service terminals, a full-service remote banking platform and a modern call centre. As of 30 June 2011, the Bank served 862,369 retail banking clients and 9,504 corporate banking clients. The banking businesses generated 93.6% of the Group's total revenue in the six months ended 30 June 2011.

In addition to its strategic businesses, the Group also provides insurance and healthcare, affordable housing and brokerage services throughout Georgia that enable the Bank to leverage its client base, distribution networks and sales force. In the six months ended 30 June 2011, the Group's strategic businesses generated revenue of GEL 171.5 million (US$102.9 million), corresponding to 79.4% of the Group's total revenue. In the six months ended 30 June 2011, the Group's synergistic businesses generated revenue of GEL 16.3 million (US$9.8 million), corresponding to 7.6% of the Group's total revenue.

Bank of Georgia Group		
Strategic businesses: • Retail banking • Corporate banking • Wealth management	Synergistic businesses: • Insurance and Healthcare • Affordable housing • Domestic brokerage	Non-core businesses: • Belarus banking operations • Other investments

Recent Developments

On 18 July 2011, the Bank paid a dividend comprising GEL 0.3 per Bank Share. On 24 October, ABCI obtained US$11.9 million debt financing from ING Bank. On 28 October 2011, the Bank issued 1.5 million additional Bank Shares for the purposes of the Senior Executive Equity Compensation Plan. On 15 November 2011, the Bank opened its new head office at 29a Gagarin Street, Tbilisi, 0160, Georgia. On 17 November 2011, the Bank obtained GEL 24.1 million (US$14.5 million) debt financing facility from EBRD. In November 2011, the Group began proceedings to voluntarily wind-up BG Capital, Ukraine and BG Capital, Belarus. On 14 December 2011, ABCI announced that it had acquired the assets and liabilities of JSC Insurance Company Partner (**"Partner"**), the twelfth largest insurance company in Georgia as of 30 June 2011. On 16 December 2011, SBRE signed a US$20.0 million five-year loan agreement with FMO for the development of an affordable housing project in Tbilisi with a gross buildable area of approximately 63,000 square metres.

Competitive Strengths

The BGH Directors believe that the Group has the following competitive strengths:

- *leading market position in an under-penetrated market with significant growth potential;*
- *growing under-banked market with solid macro and political fundamentals;*
- *prudent risk management and focus on sound asset quality;*
- *transparency and robust governance;*
- *strong liquidity and regulatory capital;*
- *leading retail banking franchise and brand recognition; and*
- *experienced management with deep understanding of the local market.*

Strategy

The key elements of the Group's business strategy are:

- *maintain its leading position in the growing and still under-penetrated Georgian banking market;*
- *focus on profitable growth;*
- *increase the portfolio while maintaining asset quality;*
- *continue to expand deposit funding to support growth;*
- *continue to invest in and improve systems and technology to increase operational efficiency;*
- *capture growth and synergies in the Georgian insurance, healthcare and affordable housing sectors; and*
- *pursue selective acquisitions in Georgia.*

Risk Factors

Before accepting the Offer, Existing Holders should consider carefully, together with the other information contained in this Prospectus, the factors and risks attaching to an investment in BGH Offer Shares as described in "Risk Factors", including the following:

Macroeconomic Risks and Political Risks Related to Georgia

- Difficult global economic conditions have had, and may continue to have, an adverse effect on the Group;
- Regional tensions could have an adverse effect on the local economy and the Group;
- As most of the Group's businesses operate only within Georgia, its success is dependent on economic, political and other factors affecting Georgia beyond its control;

- Instability or lack of growth in the domestic currency market may have an adverse effect on the development of Georgia's economy and, in turn, the Group;
- Political and governmental instability in Georgia could have an adverse effect on the local economy and the Group;

Risks Relating to the Group's Lending Activities

- The Group may not be able to maintain the quality of its loan portfolio;
- Collateral values may decline;
- Significant changes or volatility in the Group's net interest margin could have an adverse effect on the Group;
- Currency fluctuations have affected, and may continue to affect, the Group;
- The Group's risk management methods may prove ineffective at mitigating credit risk;

Additional Risks Arising Principally from the Group's Banking Activities

- The Group faces liquidity risk;
- The Group is subject to certain regulatory ratios;
- The Group's businesses are subject to substantial regulation and oversight and future changes in regulation, fiscal or other policies are unpredictable;
- The Group is subject to operational risk inherent to its business activities;

Risks Affecting the Group's Non-Banking Activities

- The Group's insurance subsidiary is subject to the risks inherent in the insurance industry;
- The Group's real estate subsidiary is subject to the risks of developing and selling real estate;

Other Risks Affecting the Group

- The Group may not successfully implement its strategy;
- The Group faces competition;
- The Group depends on its key management and qualified personnel;
- The Group's insurance policies may not cover, or fully cover, certain types of losses;
- The Group faces certain risks associated with conducting international operations;
- If, in the future, the Group fails to comply with any applicable regulations relating to, or the Group is associated with, money laundering or terrorist financing, this could have an adverse effect on the Group;

Other Risks Relating to Emerging Markets

- The uncertainties of the judicial system in Georgia, or any arbitrary or discriminatory state action taken in Georgia in the future, may have a material adverse effect on the local economy and in turn, have an adverse effect on the Group;
- Uncertainties of the tax systems in Georgia may result in the Group facing tax adjustments or fines in the future and there may be changes in current tax laws and policies;
- There are additional risks associated with investing in emerging markets such as Georgia;

Risks relating to the Offer, BGH and BGH Offer Shares

- BGH may not acquire the entire share capital of Bank of Georgia as a result of the Offer;
- Following Admission, the Bank intends to de-list the GDRs and terminate the GDR programme;
- BGH may not achieve FTSE Index eligibility;
- Participation in the Offer is subject to risks and uncertainties which could have an adverse effect on certain Existing Holders;
- The market price of BGH Offer Shares may fluctuate widely in response to different factors;

- Future issues and/or sales of BGH Offer Shares could depress the market price of BGH Offer Shares and could dilute interests of existing BGH Shareholders;
- BGH may not be able to pay dividends or make distributions due to contractual or legal constraints;
- BGH and holders of BGH Offer Shares may be exposed to foreign currency exchange rate risk between the time a dividend is declared and the time a dividend is paid;
- BGH is subject to English law and the rights of holders of BGH Offer Shares may be different from those rights associated with companies governed by other laws;
- Proposed changes to the UK's controlled foreign companies taxation rules may have an adverse effect on the Group;
- Judgments of foreign courts and arbitral awards may not be enforceable in Georgia; and
- The Reduction of Capital may not be implemented on a timely basis or at all.

Summary Financial Information

The Summary Financial information that follows presents selected consolidated financial information of the Group as of and for the six months ended 30 June 2011 and as of and for the years ended 31 December 2010, 2009 and 2008, which has been extracted without material adjustment from, should be read in conjunction with, and is qualified in its entirety by the Group's audited consolidated financial statements as of and for the six months ended 30 June 2011 (which is included in this Prospectus beginning on page F-1) and the Group's audited consolidated financial statements as of and for the years ended 31 December 2010, 2009 and 2008 (incorporated into this Prospectus by reference) and the notes thereto, as well as the sections entitled "Capitalisation and Indebtedness" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", included elsewhere in this Prospectus.

Consolidated Results of Operations

The following table sets out the principal components of the Group's consolidated net income for the periods indicated.

	For the six months ended 30 June				For the three years ended 31 December				
	2011			2010	2010		2009		2008
		(audited)		*(unaudited)*			*(audited)*		
	(thousands of Lari)	*(thousands of US Dollars)*[(1)]	*Change (%)*	*(thousands of Lari)*	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*
Interest income	239,209	143,497	19.3%	200,447	423,141	11.6%	379,058	(6.2)%	403,939
Interest expense	(125,843)	(75,491)	26.4%	(99,598)	(206,797)	9.7%	(188,517)	3.0%	(183,099)
Net interest income	**113,366**	**68,006**	**12.4%**	**100,849**	**216,344**	**13.5%**	**190,541**	**(13.7)%**	**220,840**
Fee and commission income	43,636	26,176	29.7%	33,641	74,265	15.0%	64,599	1.7%	63,503
Fee and commission expense	(9,666)	(5,798)	52.2%	(6,349)	(10,845)	13.3%	(9,574)	(29.3)%	(13,534)
Net fee and commission income	**33,970**	**20,378**	**24.5%**	**27,292**	**63,420**	**15.3%**	**55,025**	**10.1%**	**49,969**
Net insurance revenue	9,096	5,457	8.6%	8,378	16,663	8.4%	15,375	70.5%	9,016
Other operating non-interest income	59,397	35,631	143.9%	24,357	50,206	47.9%	33,950	(40.0)%	56,558
Revenue	**215,829**	**129,472**	**34.2%**	**160,876**	**346,633**	**17.5%**	**294,891**	**(12.3)%**	**336,383**
Other operating non-interest expenses	(105,946)	(63,555)	8.7%	(97,492)	(199,767)	2.4%	(195,012)	(6.0)%	(207,532)
Operating income before cost of credit risk	**109,883**	**65,917**	**73.4%**	**63,384**	**146,866**	**47.0%**	**99,879**	**(22.5)%**	**128,851**
Cost of credit risk	(8,262)	(4,956)	(58.6)%	(19,955)	(47,698)	(63.9)%	(132,172)	2.7%	(128,698)
Net operating income (loss)	**101,621**	**60,961**	**134.0%**	**43,429**	**99,168**	**N/A**	**(32,293)**	**N/A**	**153**
Impairment of goodwill and property and equipment	(13,000)	(7,798)	N/A	—	(435)	(99.4)%	(76,272)	31,159.0%	(244)
Non-operating (expense) income	(5,703)	(3,421)	617.4%	(795)	(290)	N/A	2,659	N/A	(713)
Profit (loss) before income tax (expense) benefit from continuing operations	**82,918**	**49,742**	**94.5%**	**42,634**	**98,443**	**N/A**	**(105,906)**	**13,072.4%**	**(804)**
Income tax (expense) benefit	(6,926)	(4,155)	10.1%	(6,289)	(15,776)	N/A	6,998	615.5%	978
Profit (loss) for the period from continuing operations	**75,992**	**45,587**	**109.1%**	**36,345**	**82,667**	**N/A**	**(98,908)**	**N/A**	**174**
Net loss from discontinued operations	(12,247)	(7,347)	N/A	—	—	N/A	—	N/A	—
Profit (loss) for the period	**63,745**	**38,240**	**75.4%**	**36,345**	**82,667**	**N/A**	**(98,908)**	**N/A**	**174**

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

Consolidated Statement of Financial Position

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

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(audited) (thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Assets					
Cash and cash equivalents	338,408	203,004	611,584	357,889	415,821
Amounts due from credit institutions	308,067	184,803	116,469	64,620	81,403
Loans to customers, net	2,375,110	1,424,781	2,351,697	1,661,331	2,039,022
Finance lease receivables	64,791	38,867	14,419	16,896	41,605
Investment securities:					
- available for sale	404,317	242,542	294,940	19,590	33,737
- held-to-maturity	21	13	21	249,196	22,845
Investments in associates	3,758	2,254	5,632	10,323	16,716
Investment properties	99,353	59,600	113,496	79,509	47,289
Property and equipment	278,429	167,024	285,852	278,729	301,784
Goodwill	56,212	33,720	69,212	65,777	134,238
Other intangible assets	21,741	13,042	22,390	19,665	18,221
Income tax assets:					
- current	7,584	4,549	2,247	7,997	8,095
- deferred	13,390	8,032	18,178	15,487	4,691
Prepayments	27,845	16,704	23,365	18,140	18,319
Other assets	124,298	74,564	75,420	48,280	75,121
Total assets	**4,123,324**	**2,473,499**	**4,004,922**	**2,913,429**	**3,258,907**
Liabilities					
Amounts due to customers	2,228,505	1,336,836	2,026,308	1,273,130	1,193,129
Amounts due to credit institutions	986,592	591,837	1,138,927	928,615	1,216,722
Income tax liabilities:					
- current	130	78	4,251	574	779
- deferred	23,853	14,309	30,901	24,661	23,615
Provisions	8	5	4,407	2,126	4,263
Other liabilities	132,475	79,468	106,787	85,906	101,550
Total liabilities	**3,371,563**	**2,022,533**	**3,311,581**	**2,315,012**	**2,540,058**
Equity					
Share capital	31,360	18,812	31,345	31,306	31,253
Additional paid-in capital	478,555	287,076	477,285	478,779	468,732
Treasury shares	(1,428)	(857)	(1,510)	(1,677)	(2,018)
Other reserves	28,063	16,834	26,816	24,387	26,201
Retained earnings	190,749	114,427	130,314	46,163	141,491
Total equity attributable to shareholders	**727,299**	**436,292**	**664,250**	**578,958**	**665,659**
Non-controlling interest	24,462	14,674	29,091	19,459	53,190
Total equity	**751,761**	**450,966**	**693,341**	**598,417**	**718,849**
Total liabilities and equity	**4,123,324**	**2,473,499**	**4,004,922**	**2,913,429**	**3,258,907**

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

Documents available for inspection

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months from the date of publication of this Prospectus at the offices of BGH at 84 Brook Street, London, W1K 5EH, United Kingdom:

- the articles of association of BGH adopted subject to the Offer being declared unconditional (the **"Articles"**);
- the Charter;
- the historical financial information of the Group for the six months ending 30 June 2011, including the report of Ernst & Young LLC thereon, set out from page F-2 of this Prospectus;
- the historical financial information of the Group for the three years ending 31 December 2010, including the report of Ernst & Young LLC thereon, incorporated by reference in this Prospectus;
- service agreements and letters of appointment (as applicable) with the BGH Directors;
- written consent from Ernst & Young LLC;
- Resolutions of the Bank Supervisory Board and the Bank Management Board in respect of sections 1 ("Introduction") and 7 ("Recommendation") of Part IV "Information on the Offer" of this Prospectus; and
- this Prospectus.

PART II

RISK FACTORS

*BGH Offer Shares are subject to a significant degree of risk, including the risks described below. Holders of Existing Securities (****"Existing Holders"****) should carefully consider the following risk factors and the other information in this Prospectus before making any decision relating to the Offer. The following risks and uncertainties constitute the material risks and uncertainties relating to BGH and the Group, the markets and industries in which the Group operates, BGH Offer Shares, the Offer and BGH's status as a holding company. Additional risks and uncertainties not currently known to BGH and the BGH Directors or that BGH and the BGH Directors currently deem immaterial may also have a material adverse effect on BGH and the Group's business, financial condition and results of operations, which could have a negative effect on the liquidity and price of BGH Offer Shares.*

Any of the following risks could have a material adverse effect on BGH and the Group's business, financial condition or results of operations. In such case, investors may lose all or part of the value of their original investment. Any statement in this discussion that a risk may have an "adverse effect on the Group" refers to the fact that the risk may have a material adverse effect on the Group's business, financial condition and results of operations.

Existing Holders should read the detailed information contained in this Prospectus and should reach their own views before making any decision relating to acceptance of the Offer. Before making any decision relating to the Offer, Existing Holders should consult their own stockbroker, bank manager, lawyer, auditor or other financial, legal and tax advisers and carefully review the risks associated with BGH Offer Shares and the Offer and consider them in light of their personal circumstances.

Macroeconomic Risks and Political Risks Related to Georgia

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

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

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

Although global markets showed signs of improvement in 2010 and the first half of 2011, new negative developments, such as Standard & Poor's cutting the long-term US credit rating by one notch to AA+ on 5 August 2011 and the fiscal crises or potential fiscal crises in certain EU member states, particularly Greece, Spain, Ireland, Italy and Portugal, have emerged, and other countries may face such crises in the future. These developments have created an unfavourable environment for the banking sector as a whole and could have an adverse effect on the Group.

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

Georgia, which is bordered by Russia, Azerbaijan, Armenia and Turkey, could be affected by political unrest within its borders and in surrounding countries. In particular, Georgia has had ongoing disputes in Abkhazia, the Tskhinvali Region/South Ossetia and with Russia since the restoration of its independence. These disputes have led to sporadic violence and breaches of peace-keeping operations. Most recently, in August 2008 the conflict in the Tskhinvali Region/South Ossetia escalated as Georgian troops engaged with local militias and Russian forces that crossed the international border, and Georgia declared a state of war (the **"2008 Conflict"**). Although Georgia and Russia signed a French-brokered ceasefire that called for the withdrawal of Russian forces later that month, Russian troops continue to occupy Abkhazia and the Tskhinvali Region/South Ossetia and tensions continue. Russia has indicated that it views the eastward expansion of the North Atlantic Treaty Organisation, potentially including ex-Soviet republics, such as Georgia, as hostile. In addition, relations between Georgia's neighbours, Azerbaijan and Armenia, remain tense and there are sporadic instances of violence between these two countries.

Any future deterioration or worsening of Georgia's relationship with Russia, including 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, or a significant deterioration in relations between Azerbaijan and Armenia, may have a negative effect on the stability of Georgia, both in political and economic terms which, in turn, could have an adverse effect on the Group.

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

Georgia accounted for 85.0%, 90.7%, 87.5% and 89.1% of the Group's total consolidated income for the six months ended 30 June 2011 and years ended 31 December 2010, 2009 and 2008, respectively. Therefore, macroeconomic factors relating to Georgia, such as Gross Domestic Product (**"GDP"**), inflation, interest and currency exchange rates, as well as unemployment, personal income and the financial situation of companies, have a material impact on loan losses, margins and customer demand for the Group's products and services, which materially affects the Group's business, financial condition and results of operations.

Georgia's main economic activities include tourism, transit services, agriculture, mining, metals, machinery and chemicals. According to the Legal Entity of Public Law National Statistics Office of Georgia (**"Geostat"**), the country's real GDP grew by 9.4% in 2006 and 12.3% in 2007 and, according to the Ministry of Finance of Georgia, this growth was largely based on strong inflows of foreign investment and robust spending by the government of Georgia. However, the global economic downturn led to a decline in public spending and Georgia experienced a 57.9% reduction in FDI in 2009, compared to 2008, following the 2008 Conflict. Real GDP in Georgia declined by 3.8% in 2009 compared with growth of real GDP by 2.3% in 2008 due to the global economic crisis, which led to deterioration in the employment market in Georgia and, in turn, contributed to a decrease in loans and a slowdown in the rate of growth of deposits in the Georgian banking sector. In addition, the Georgian banking sector began to experience a shortage of liquidity in the second half of 2008, which continued into the first half of 2009, increasing competition for retail deposits. The economic slowdown in Georgia reduced the growth rate of the Group's portfolio of retail and corporate loans. This in turn affected the Group's net fee and commission income (and, to a certain extent, the Group's net interest income, although this was predominantly affected by a reduction in the size of the Group's securities portfolio). Moreover, financing costs increased due to both the limited availability of funding on the inter-bank market, mainly driven by credit risk aversion, and banks' increasing interest rates on deposits resulting from tightening competition on the deposit market, which also had a negative impact on the net interest income earned by the Group. In addition, the quality of the Group's loan portfolio deteriorated as a result of the economic slowdown, which resulted in an increase in the Group's loans past due more than 90 days. Although the Georgian economy has shown signs of improvement in 2010 and in the first six months of 2011, with real GDP growth of 6.3% in 2010 and 5.5% in the first six months of 2011, there can be no assurance that the recovery will continue.

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

In addition, the Georgian economy is highly dollarised. Prior to 2008, the dollarisation rate of the banking system (defined as foreign currency deposits as a share of total deposits) had been declining with foreign currency deposits accounting for approximately 64.4% of all amounts due to customers as of 1 January 2008. As a result of the combined effects of the 2008 Conflict and the global financial crisis, however, the dollarisation rate increased to approximately 73.6% as of 1 January 2009, although it has since decreased to approximately 68.8% as of 1 January 2010, 67.0% as of 1 January 2011 and 64.3% as of 1 July 2011. Although the NBG has adopted measures to support the development of Georgia's domestic money markets, the dollarisation rate could have an adverse impact on the effectiveness of the implementation of the NBG's monetary policy which, in turn, could have a material adverse effect on the Georgian economy and therefore an adverse effect on the Group.

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

Although the Lari is a fully convertible currency, there is generally no market outside Georgia for the exchange of Lari. A market exists within Georgia for the conversion of Lari into other currencies, but it is limited in size. According to the NBG, in 2010, the total volume of trading turnover in the Lari-US Dollar and Lari-Euro markets (excluding activities of the NBG) amounted to US$6.5 billion and €1.4 billion, respectively. According to the NBG, the NBG had US$2,861.9 million in gross official reserves as of 31 October 2011. While the government of Georgia has stated that these reserves will be sufficient to sustain the domestic currency market in the short term, a lack of growth of this currency market may hamper the development of Georgia's economy, which could have a material adverse effect on the businesses of the Group's corporate clients and, in turn, an adverse effect on the Group.

In addition, a lack of stability in the currency market may adversely effect Georgia's economy. There was significant instability in the Lari-to-US Dollar exchange rate following the Russian financial crisis of August 1998 and the 2008 Conflict. While the Lari generally appreciated against the US Dollar and other major international currencies from 2001 to 2008, the Lari then generally depreciated against the US Dollar and other major international currencies until February 2011, when it started to appreciate again. In November 2008, the NBG devalued the Lari by 16.1%, a measure aimed at alleviating the negative impact of the global financial crisis on the Georgian economy. The ability of the government of Georgia and the NBG to limit any volatility of the Lari will depend on a number of political and economic factors, including the NBG's and the government's ability to control inflation, the availability of foreign currency reserves and FDI inflows. Any failure to do so, or a major depreciation or further devaluation of the Lari, could adversely affect Georgia's economy. According to estimates provided by Geostat, annual inflation, as measured by the end-of-period Consumer Price Index (**"CPI"**) in Georgia was 11.2% in 2010, 3.0% in 2009 and 5.5% in 2008. Inflation continued to rise in 2011, reaching 14.3% at the end of May 2011, and then decreasing to an estimated 2.3% as of the end of October 2011. High and sustained inflation could lead to market instability, a financial crisis, a reduction in consumer purchasing power and erosion of consumer confidence. Any of these events could lead to a deterioration in the performance of Georgia's economy and negatively affect the businesses of the Group's customers which could, in turn, have an adverse effect on the Group.

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

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. Mikheil Saakashvili has served as President of Georgia since January 2004 and the next presidential elections are scheduled to be held in October 2013. However, pursuant to the provisions of Georgia's constitution (the **"Constitution"**), President Saakashvili cannot stand for a third term in office and there can be no assurance that a change in President will not lead to political instability within the country. Additionally, on 15 October 2010, the Parliament of Georgia (the **"Parliament"**) approved amendments to the Constitution, the majority of which will become effective after the next presidential election. Although the amendments to the Constitution are intended to enhance the primary governing responsibility of the Parliament and reduce the powers of the presidency, there can be no assurance that their implementation will not create political disruptions or political instability or otherwise negatively affect the political climate in Georgia. Moreover, there can be no assurance that members of the next Parliament will continue the current Parliament's economic and fiscal policies, which have generally been designed to liberalise the Georgian economy. The next parliamentary elections are scheduled to be held in October 2012. In October 2013, following the Presidential elections, Parliament must elect a Prime Minister who, upon election, will have greater powers under the amended Constitution. Any protests or criticism in relation to the conduct of such elections may lead to political instability within the country. If any of the events referred to above results in political or governmental instability in Georgia, this could have a negative effect on the economy in Georgia which, could, in turn, have an adverse effect on the Group.

Risks Relating to the Group's Lending Activities

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

The quality of the Group's loan portfolio is affected by changes in the creditworthiness of its clients, their ability to repay their loans on time, the statutory priority of claims against a client and the Group's ability to enforce its security interests on clients' collateral should such clients fail to repay their loans and whether the value of such collateral is sufficient to cover the full amounts of those loans. In addition, the quality of the Group's loan portfolio may deteriorate due to various other reasons, including factors beyond the Group's control (such as any negative developments in Georgia's economy resulting in the financial distress or bankruptcy of the Group's clients, or restriction of credit information concerning certain clients) and other factors, such as a failure of the Group's risk management procedures or a rapid expansion of the Group's loan portfolio, as described below. During 2008 and 2009, the Group's loan book quality was negatively affected by the economic slowdown in Georgia, Ukraine and Belarus as well as by the 2008 Conflict. As a result, the Group's loan impairment charges increased to GEL 122.8 million in 2008, decreasing slightly to GEL 118.9 million in 2009. These charges decreased to GEL 49.9 million in 2010 and GEL 11.3 million in the six months ended 30 June 2011. Also, as of 30 June 2011 and 31 December 2010, loans past-due more than 90 days accounted for 3.1% and 4.7% of total gross loans, respectively, compared to 7.7% and 2.9% as of 31 December 2009 and 2008, respectively. Loans that would otherwise be overdue or impaired whose terms (including as to principal and interest payment) have been renegotiated due to the borrower's existing or possible inability to pay **("Restructured Loans")** accounted for 6.7% of total gross loans as of 30 June 2011, compared to 10.9%, 29.9% and 19.8%, as of 31 December 2010, 2009 and 2008, respectively (for more information regarding the credit quality of Restructured Loans, see Part XVI "Risk Management — Credit Risk"). Although the Group's loan book quality improved and its loan impairment charges decreased in both 2010 and in the first six months of 2011, and although the BGH Directors do not believe that there is a material risk that the Group's loan portfolio quality will deteriorate in the next 12 months, there can be no assurance that in the longer term the Group's loan portfolio quality will not deteriorate and that the Group's loan impairment charges will not increase, which could, in turn, have an adverse effect on the Group's profitability.

The Group's loan portfolio for its corporate banking segment is highly concentrated, with the Group's top ten corporate borrowers accounting for 15.4% of the Group's total loan portfolio as of 30 June 2011 (in each case gross of allowance for impairment). See Part XI "Selected Statistical and Other Information". To the extent that the Group grows its loan portfolio by entering into additional arrangements with current counterparties, it will increase its credit and general counterparty risk with respect to those counterparties.

Collateral values may decline

As of 30 June 2011, the Group held collateral against gross loans amounting to GEL 2,262.3 million (US$1,357.1 million), corresponding to 90.6% of the Group's total gross loans. The main forms of collateral taken by the Group in respect of corporate lending are charges over real estate properties, equipment, inventory and trade receivables. The main form of collateral taken by the Group in respect of retail lending is a mortgage over residential property. In respect of mortgage loans which are secured by real estate, the Group imposes a loan-to-value (based on a liquidation value of the collateral) ratio of between 75% and 90% at the time the loan is advanced, depending on the client. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions in the industries in which the Group's clients operate, such as occurred during 2008 and 2009, may result in illiquidity and a decline in the value of the collateral securing the Group's loans, including a decline to levels below the outstanding principal balance of those loans.

In addition, declining or unstable collateral prices in Georgia may make it difficult for the Group to accurately value collateral held by it. If the fair value of the collateral held by the Group declines significantly in the future, the Group could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans past due more than 90 days which could, in turn, have an adverse effect on the Group. If the Group experiences any significant decline in the value of its collateral, additional provisions for loans past due more than 90 days or lower than expected recovery levels on loans past due more than 90 days in the future, this could have an adverse effect on the Group.

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

The Group derives the majority of its total net income from net interest income. As a result, the Group's operations are affected by fluctuations in its net interest margin. In particular, the Group's banking operations depend on the management of key factors which affect the Group's net interest margin, such as interest rates, competition for loans and deposits, customer demand and costs of funding. These key factors are influenced by factors beyond the

Group's control, such as global and local economic conditions, the resources of the Group's competitors and consumer confidence. Interest rates are highly sensitive to many factors beyond the Group's control, including monetary policies and domestic and international economic and political conditions and the reserve policies of the NBG.

A mismatch of interest-earning assets and interest-bearing liabilities in any given period resulting from changes in any of the key factors outlined above, or otherwise, could reduce the Group's net interest margin. The Group's net interest margin was 7.4% in the six months ended 30 June 2011 and 8.4% 8.5% and 9.5% in the years ended 31 December 2010, 2009 and 2008, respectively. Any future reduction in the Group's net interest margin caused by changes in the key factors outlined above could have a material adverse effect on the Group's net interest income and, in turn, an adverse effect on the Group.

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

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

A substantial portion of the total assets of the Group, especially its loan portfolio (71.3% of its loan portfolio as of 30 June 2011), is denominated in foreign currencies, primarily US Dollars, while the majority of customers who have their loans denominated in foreign currencies earn their income in Lari. Those customers are usually not protected against the fluctuations of the exchange rates of the Lari against the currency of the loan. Consequently, any depreciation of the Lari against the currency of the loan may result in difficulties related to the repayment of the loans, which in turn may lead to a decrease of the quality of the Group's loan portfolio and an increase in impairment provisions for loans extended to the Group's customers, which may have an adverse effect on the Group.

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

Depreciations in the Belarusian Rouble compared to the Lari reduce BNB's contribution to the Group's consolidated capital. In May 2011, the Belarusian Rouble was devalued by 39.5% as compared to its value as of 30 April 2011, as measured against the US Dollar. As a result, the regulatory capital of BNB decreased below the minimum regulatory capital required to accept retail deposits (being €25 million, as required by the National Bank of the Republic of Belarus (the **"NBRB"**)). As of 30 June 2011, the regulatory capital of BNB was €12.2 million (GEL 29.4 million) and the NBRB granted a temporary waiver of the minimum regulatory capital requirement through 1 January 2013. As result of the devaluation, the Bank recognised a GEL 13.0 million write-down in respect of BNB's goodwill, which, as of 30 June 2011, amounted to GEL 10.4 million. In October 2011, the Belarusian Rouble declined further, declining by 41.6% compared to 30 June 2011, as measured against the US Dollar, and, accordingly, the regulatory capital of BNB further declined to €7.3 million (GEL 17.1 million). Any subsequent devaluation of the Belarusian Rouble could result in further declines in BNB's regulatory capital and, consequently, additional write-downs of BNB's goodwill.

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

If the Lari exchange rate against the US Dollar or the Belarussian Rouble exchange rate against the Euro fluctuates, or any of the Group's counterparties default on their obligations, this could lead to the Group suffering losses which could, in turn, have an adverse effect on the Group.

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

Losses relating to credit risk may arise if the risk management policies, procedures and assessment methods implemented by the Group to mitigate credit risk and to protect against credit losses prove less effective than expected. The Group employs qualitative tools and metrics for managing risk that are based on observed historical market behaviour. These tools and metrics may fail to predict future risk exposures, especially in periods of increased volatility, falling valuations or in periods in which there is a rapid expansion of the Group's loan portfolio. In addition, even though the Group requires regular 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, some of the Group's corporate clients may not have extensive or externally-verified credit histories, and their accounts may not be audited by a reputable external auditor. Therefore, notwithstanding the Group's credit risk evaluation procedures, the Group may be unable to evaluate 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 some private individuals transacting business with the Group is difficult to assess and predict as some retail borrowers have no or very limited credit history. Accordingly, the risk management systems employed by the Group may prove insufficient in measuring and managing risks and this may have an adverse effect on the Group.

Additional Risks Arising Principally From the Group's Banking Activities

The Group faces liquidity risk

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

As of 30 June 2011 and 31 December 2010, 92.4% and 92.2%, respectively, of the Group's amounts due to customers had maturities of one year or less and 39.8% and 42.7%, respectively, were payable on demand. As of the same dates, the Group's ratio of net loans to customers compared to amounts due to customers was 106.6% and 116.1%, respectively. In terms of current and short-term liquidity, the Group is exposed to the risk of unexpected, rapid withdrawal of deposits by its clients in large volumes. Circumstances in which clients are more likely to rapidly withdraw deposits in large volumes include circumstances which are beyond the Group's control, such as a severe economic downturn, a loss in consumer confidence, an erosion of trust in financial institutions, or a period of social, economic or political instability, among others. By way of example, the Bank experienced a higher than usual volume of client withdrawals in the period following the 2008 Conflict. See "— Macroeconomic Risks and Political Risks Related to Georgia — Political and governmental instability in Georgia could have an adverse effect on the local economy and the Group". Although the BGH Directors do not believe that circumstances currently exist which make it likely that clients will withdraw deposits in large volumes, if, in the future, a substantial portion of the Group's clients rapidly or unexpectedly withdraw their demand or term deposits or do not roll over their term deposits upon maturity, this could have an adverse effect on the Group.

The Group is subject to certain regulatory ratios

The Bank, like all other regulated financial institutions in Georgia, is required to comply with certain capital adequacy and regulatory ratios set by the NBG (for further information, see Part XXIII "Regulation of the Georgian Banking Sector — Mandatory Financial Ratios"). Although in the past the Bank's "Investments to equity" and "Investment plus fixed assets to equity" financial ratios have been below the level set by the NBG, the NBG confirmed on 31 December 2009 that it would not impose any sanctions on the Bank as a result and the Bank has been in compliance with both of these financial ratios since February 2011.

In addition, BNB is licensed by the NBRB and is required to comply with certain capital adequacy ratios and minimum share capital requirements set by the NBRB. Although BNB has the minimum level of regulatory capital required by NBRB to conduct banking operations in Belarus (the minimum level for this purposes is set at the equivalent of €5 million and, as of 30 June 2011, the regulatory capital of BNB was €12.2 million), BNB has not had the minimum level of regulatory capital required by NBRB in order to hold retail deposits (set at the equivalent of €25 million for this purpose) since May 2011. Although BNB has received a temporary waiver effective until 1 January 2013 in respect of this breach, there is no assurance that BNB will be able to comply with the minimum level of regulatory capital required by NBRB by 1 January 2013, or that it will be able to obtain a further waiver from the NBRB thereafter. For further information, see "Risks Relating to the Group's Lending Activities — Currency fluctuations have affected, and may continue to affect, the Group". If BNB's level of regulatory capital remains below the minimum level required by the NBRB after the temporary waiver expires and no new waiver is obtained, the NBRB may revoke BNB's licence to accept retail deposits (as of 30 June 2011, BNB had GEL 9.0 million (US$5.4 million) in retail deposits representing 0.4% of the Group's total deposits and 0.3% of total liabilities).

Save for BNB not having the minimum level of regulatory capital required by the NBRB in order to hold retail deposits, the Group is not in breach of any applicable capital adequacy or regulatory ratios and the BGH Directors believe that the Group overall has adequate capital for at least the next 12-to-18 months. However, its ability to maintain its ratios in the longer term could be affected by a number of factors, some of which are beyond the Group's control, including:

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

Failure to maintain the minimum capital adequacy and other regulatory ratios may have an adverse effect on the Group. Moreover, a breach of regulatory requirements relating to the minimum capital adequacy and other regulatory ratios may result in entities in the Group being subject to administrative sanctions, which may result in an increase in the operating costs of the Group, loss of reputation, and, consequently, an adverse effect on the Group. See "— The Group's businesses are subject to substantial regulation and oversight and future changes in regulation, fiscal or other policies are unpredictable".

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

Currently, the Bank is required to comply with Georgian banking regulations. In addition to mandatory capital adequacy ratios, the NBG is authorised to set lending limits and other economic ratios in Georgia, with which the Bank is required to comply. Under Georgian banking regulations, the Bank is required to, among other things, comply with minimum reserve requirements and mandatory financial ratios and regularly file periodic reports. In addition to its banking operations, the Group also renders other regulated financial services and offers financing products, including brokerage and pension funds operations, as well as insurance and healthcare products and services that are subject to governmental supervision. Additionally, the business, financial condition and results of operations of the Group's activities in Belarus are affected by many legal regulations, instructions and recommendations, including those issued by the NBRB and the NBG. See "— The Group is subject to certain regulatory ratios".

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

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

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

Although the BGH Directors believe that the Group's risk management policies and procedures (which are designed to identify and analyse relevant risks to the Group's business, prescribe appropriate limits to various risk areas and monitor the level and incidence of such risks on an on-going basis) are adequate and that the Group is currently in compliance in all material respects with all laws, standards and recommendations applicable to the Group, any failure of the Group's risk management system to detect unidentified or unanticipated risks in the future, or to correct operational risks, or any failure of third parties adequately to perform outsourced activities could have an adverse effect on the Group.

Risks Affecting the Group's Non-Banking Activities

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

The Group's insurance subsidiary, ABCI, operates in the property and casualty (P&C), life and health insurance industry. In the ordinary course of business, ABCI seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results through reinsurance. Under such reinsurance arrangements, reinsurers assume a portion of the losses and related expenses; however, ABCI remains liable as the direct insurer on all risks reinsured. Consequently, ceded reinsurance arrangements do not eliminate ABCI's obligation to pay under its insurance policy for losses insured, which could cause a material increase in ABCI's liabilities and a reduction in its profitability. Moreover, ABCI is subject to its reinsurers' credit risk and solvency, and their willingness to make payments under the terms of reinsurance arrangements with respect to its ability to recover amounts due from them. Although ABCI adheres to strict reinsurance policies and periodically evaluates the financial condition of its reinsurers to minimise its exposure to significant losses from reinsurer insolvencies, reinsurers may become financially unsound by the time their financial obligation becomes due. The inability of any reinsurer to meet its financial obligations to ABCI could negatively impact ABCI's results of operations. In addition, the availability, amount and cost of reinsurance depend on general market conditions and may fluctuate. In the future, reinsurance may not be available to ABCI at commercially reasonable rates, or at all, and any decrease in the amount of ABCI's reinsurance will increase its risk of loss.

In accordance with industry practices and accounting and regulatory requirements, ABCI establishes reserves for reported claims (RBNS), incurred but not reported claims (IBNR) and unearned premiums. Reserves do not represent an exact calculation of liability, but instead represent estimates of what the ultimate settlement and administration of claims will cost based on an assessment of facts and circumstances then known, review of historical settlement patterns, estimates of trends in claims severity, frequency of claims, legal theories of liability and other factors. There can be no assurance that actual claims will not materially exceed its claims reserves and have a material effect on its results of operations. Moreover, as policies involving potential claims above set thresholds are reinsured on a proportional basis, there can be no assurance that ABCI's ultimate net losses will not materially exceed its claim reserves.

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

The Group's real estate subsidiary SBRE, is primarily engaged in developing affordable residential properties for sale and rent. Real property investments are subject to varying degrees of risk including relative illiquidity. Several factors may adversely affect the levels of income from, and the value of, properties, including:

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

In addition, SBRE's projects are subject to the general risks associated with construction and development, including the following:

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

Any of these factors could have a material adverse effect on the financial condition and operating results of the property SBRE owns which, in turn, may have an adverse effect on the Group.

Other Risks Affecting the Group

The Group may not successfully implement its strategy

The Group aims to achieve long-term sustainable growth and profitability through a secure, modern and universal banking model, as well as to maintain and enhance its leading market position in Georgia by, among other things, doubling the size of the Bank's loan portfolio between the end of 2010 and the end of 2013 in line with expected growth in the market. In addition, the Group has been diversifying its business through the addition of businesses that have strong synergies with its banking operations. Furthermore, the Bank is concentrating on the Georgian market and, to this end, the Bank's subsidiary, Joint Stock Company BG Capital (**"BG Capital"**), is in the process of exiting from its brokerage operations in Ukraine and Belarus and the Group intends to exit from its other non-core operations, including Joint Stock Company Liberty Consumer (**"Liberty Consumer"**) and the remaining equity interest in BG Bank and, in due course, its interest in BNB. The Group may also pursue selective acquisitions in Georgia.

There can be no assurance that the Group will be able to achieve its major strategic objectives, which may be affected by market conditions, potential legal and regulatory impediments and other factors, or that it will be able to exit from its non-core operations at a satisfactory price, or at all. Any failure by the Group to achieve its strategic objectives could have a material adverse impact on the Group's reputation which, in turn, could have an adverse effect on the Group.

The Group faces competition

In recent years the Georgian banking sector has become increasingly competitive. According to the NBG, as of 31 August 2011 there were 19 commercial banks and foreign bank branches operating in Georgia, of which 17 (including two branches of foreign banking institutions) had foreign capital participation. Bank of Georgia competes with a number of these banks, including TBC Bank, ProCredit Bank, Bank Republic, VTB Georgia and Liberty Bank. In particular, as ProCredit Bank has a large market share in respect of small and medium enterprise (**"SME"**) and micro finance loans, the Bank faces competition from ProCredit Bank in relation to SME and micro financing in Georgia. TBC Bank and Bank Republic are the Bank's principal competitors in the corporate sector. In addition, both the mortgage market and the market for the provision of financial services to high net worth individuals are highly competitive in Georgia, with some competitors in the mortgage market implementing aggressive pricing policies in order to retain or build their market share. Additionally, in Belarus, the Group competes with a wide range of local (including state-owned) and international banks.

Although there are currently no anti-monopoly regulations that establish market share limits, there can be no assurance that such anti-monopoly limitations will not be introduced in Georgia in the future. Given the current high market share maintained by the Bank, the introduction of any anti-monopolistic restrictions may have an effect on the growth rates of the Group, restrict the Group's ability to make future acquisitions, or lead to the Group being compulsorily required to sell some of its assets.

Increased competition may have a negative impact on the Group's ability to sustain its margin and fee levels, particularly if the Group's competitors possess greater financial resources (especially in the case of banks with foreign capital investment or banks which are branches of non-resident foreign banks, by way of access to funding from foreign capital or their parent entity), access to lower-cost funding and a broader offering of products than the Group. For example, in 2008 and 2009 the Group's financing costs increased (which in turn had a negative impact on the net interest income earned by the Group) due to, among other things, banks' increasing interest rates on deposits resulting from tightening competition on the deposit market. In addition, increasing competition could lead to significant pressure on the Group's market share. Increasing competition in the banking industry has already led to and may, in the future, continue to lead to increased pricing pressures on the Group's products and services, which could have an adverse effect on the Group.

The Group depends on its key management and qualified personnel

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

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

The Group generally maintains insurance policies covering its assets, operations and certain employees in line with general business practices in Georgia, with policy specifications and insured limits, which the BGH Directors believe are adequate. Risks that Group entities are insured against generally include fire, lightning, flooding, theft, vandalism, and third-party liability. The Group also maintains Bankers' Blanket Bond and directors' and officers' insurance. However, there can be no assurance that all types of potential losses are insured or that policy limits would be adequate to cover them. Any uninsured loss or a loss in excess of insured limits could adversely affect the Group's existing operations and could thereby have an adverse effect on the Group.

The Group faces certain risks associated with conducting international operations

The Group has historically made investments in Ukraine and Belarus. The Group's financial results in 2009 were adversely affected by a goodwill write-down in the amount of GEL 73.1 million, predominantly due to the write-off of the entire goodwill associated with Joint Stock Company BG Bank (**"BG Bank"**), as a result of a weak economic environment in Ukraine and high loan and finance lease receivables impairment charges in respect of BG Bank in 2008 and 2009. GEL 4.0 million (9.1%), GEL 40.8 million (32.5%) and GEL 18.0 million (14.5%), respectively, of the Group's loan and finance lease receivables impairment charges were related to the loan book of BG Bank in 2010, 2009 and 2008. For further information, see "Risks Relating to the Group's Lending Activities — Currency fluctuations have affected, and may continue to affect, the Group".

Although as part of its revised strategy to concentrate on the Georgian market the Group disposed of an 80% equity interest in BG Bank (in respect of which the remaining GEL 8.2 million (US$4.9 million) instalment of the purchase price is due to be paid in 2011), and will continue to seek to exit from its international operations (including its remaining shares in BG Bank and, in due course, its shares in BNB) at an appropriate time, while it holds these assets the Group will continue to be subject to risks that it would not face as a purely domestic bank. These include certain political and economic risks, compliance risks, foreign currency exchange risk, as well as the risk of failure to market adequately to potential customers in other countries. See "Other Risks Relating to Emerging Markets", below. Any failure to manage such risks may cause the Group to incur increased liabilities and have a possible adverse effect on the Group's business, financial condition and results of operations.

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

Although the Group has implemented comprehensive anti-money laundering (**"AML"**), "know-your-customer" (**"KYC"**), "know-your-corresponding-bank" and "know your employee" policies, and is in the process of implementing such policies throughout its financial subsidiaries (including insurance and brokerage), which are monitored by its AML Compliance Department, and adheres to all requirements under applicable legislation aimed at preventing it being used as a vehicle to facilitate money laundering, there can be no assurance that these measures will be completely effective. If, in the future, the Group fails to comply with timely reporting requirements or other AML regulations or is associated with money laundering or terrorist financing, this could have an adverse effect on the Group. In addition, involvement in such activities may carry criminal or regulatory fines and sanctions.

Other Risks Relating to Emerging Markets

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

Georgia is still developing an adequate legal framework required for the proper functioning of a market economy. For example, in Georgia, several fundamental civil, criminal, tax, administrative and commercial laws have only recently become effective. The recent nature of much of Georgian legislation and the rapid evolution of the Georgian legal system place the quality and the enforceability of laws in doubt and result in ambiguities and inconsistencies in their application.

In addition, the court system in Georgia is understaffed and has been undergoing significant reforms. Judges and courts in Georgia are generally less experienced in the area of business and corporate law than is the case in certain other countries, particularly the United States and EU countries. Most court decisions are not easily available to the general public, and enforcement of court judgments may, in practice, be difficult in Georgia. The uncertainties of the Georgian judicial system could have a negative effect on the Georgian economy, could have a material adverse effect on the business of the Group's corporate clients which could, in turn have an adverse effect on the Group. In addition, to varying degrees, the same uncertainties of the tax system in Georgia apply to Belarus.

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

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

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

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

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

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

Risks relating to the Offer, BGH and BGH Offer Shares

BGH may not acquire the entire share capital of Bank of Georgia as a result of the Offer

Pursuant to the Georgian law procedures governing the compulsory acquisition of shares (squeeze-outs), if BGH acquires more than 95% of the Bank Shares, it will be able to compel the holders of the remaining Bank Shares to sell their shares to BGH.

If BGH acquires more than 75% of the Bank Shares, pursuant to Georgian law, it would be able to validly resolve upon matters within the competence of the general meeting of Bank shareholders (**"GMS"**) on a unilateral basis without convening a GMS. In such circumstances, any remaining minority shareholders of the Bank would only be entitled to receive a notification of such a resolution after it has been approved.

Although there are mandatory tender offer rules in Georgia, those rules do not require a majority shareholder to make a tender offer to any remaining minority shareholders in certain circumstances, including where the majority shareholder became a majority shareholder as a result of a tender offer for all shares. In addition, Georgian law does not provide minority shareholders with the right to require a majority shareholder to acquire their shares, regardless of the percentage of shares held by such majority shareholder. Accordingly, after Admission BGH will not be required to make a mandatory tender offer for the remaining Bank Shares and minority shareholders in the Bank will not be able to require BGH to acquire their Bank Shares.

Following Admission, the Bank intends to de-list the GDR s and terminate the GDR programme

Following Admission, the Bank intends to apply to the UK Listing Authority and the London Stock Exchange to request that the GDRs be delisted from the Official List and from the Regulated Market, respectively, and to terminate the GDR programme as soon as practicable after such de-listing. In the event that the GDR programme is terminated, any remaining holders of GDRs will receive the relevant underlying shares in the Bank upon cancellation of their GDRs.

BGH may not achieve FTSE Index eligibility

Following Admission, BGH intends to seek FTSE Index eligibility. In particular, BGH will position itself for inclusion in the FTSE All-Share Index and, subject to (among other things) market capitalisation, in the FTSE 250 Index. However, as the FTSE committee exercises an element of discretion in determining whether a company is eligible for inclusion, and such discretion relates to matters outside of BGH's control, such as the liquidity of its shares, there is no certainty that this will be achieved or that the benefits associated with FTSE Index inclusion will be available to the Group.

Participation in the Offer is subject to risks and uncertainties which could have an adverse effect on certain Existing Holders

While the Bank considers that the Offer is in the best interests of the Existing Holders, acceptance of the Offer could have adverse consequences for certain Existing Holders in certain jurisdictions (including potential adverse tax consequences). In particular, acceptance of the Offer will involve the exchange by Existing Holders of those Existing Securities for BGH Offer Shares issued by BGH. Subject to the availability of any relief, such an exchange may constitute a taxable disposal of their Existing Securities. BGH would intend for such a disposal to qualify for "rollover relief" where available in the United Kingdom and Georgia, although such treatment will be subject to the satisfaction of any conditions relevant to the availability of such relief. Rollover relief may not be available in Georgia. Existing Holders should seek their own independent advice with respect to the impact of the Offer and Admission on them, in particular tax advice.

The market price of BGH Offer Shares may fluctuate widely in response to different factors

The market price of BGH Offer Shares may be subject to wide fluctuations in response to many factors. Stock markets have from time to time experienced extreme price and volume volatility which could have an adverse effect on the market price for the BGH Offer Shares. The market price of the BGH Offer Shares may fluctuate significantly in response to a number of factors, many of which are beyond the Group's control, including: variations in operating results in the Group's reporting periods; divergence in financial results from stock market expectations; changes in financial estimates by securities analysts; changes in market valuation of similar companies; a perception that other market sectors may have higher growth prospects; announcements of significant contracts, acquisitions, strategic alliances, joint ventures or capital commitments; legislative changes in the Group's sector; any shortfall in revenues or net income or any increase in losses from levels expected by securities analysts; future issues or sales of BGH Offer Shares; and general stock market price and volume fluctuations. Any of these events could result in a material decline in the price of BGH Offer Shares.

Future issues and/or sales of BGH Offer Shares could depress the market price of BGH Offer Shares and could dilute interests of existing BGH Shareholders

Future sales of a substantial number of Ordinary Shares after Admission could result in a significantly lower market price for BGH Offer Shares by introducing a significant increase in the supply of Ordinary Shares to the market. Subsequent equity issues may also reduce the percentage ownership of BGH Shareholders. Moreover, newly issued shares may have rights, preferences or privileges senior to the BGH Offer Shares.

If such shares are not issued on a pre-emptive basis or if certain holders of BGH Offer Shares outside the United Kingdom are not able to exercise pre-emptive rights, it may not be possible for existing BGH Shareholders to participate in such future share issues, which may dilute such BGH Shareholders' interests in the Group. In particular, holders of BGH Offer Shares in the United States may not be entitled to exercise these rights unless either the rights and BGH Offer Shares are registered under the Securities Act, or BGH has available to it, and utilises, an exemption from the registration requirements of the Securities Act. There can be no assurance that BGH will file any such registration statement, or that an exemption from the registration requirements of the Securities Act will be available, which would result in holders of BGH Offer Shares in the United States being unable to exercise their pre-emptive rights.

BGH would expect to evaluate at the time of any rights or similar offering the costs and potential liabilities associated with any such registration statement or qualifying for an exemption from registration, as well as the indirect benefits of enabling holders of BGH Offer Shares in the United States to exercise any pre-emptive rights for BGH Offer Shares and any other factors considered appropriate at the time, prior to making a decision whether to file a registration statement with the SEC or utilise an exemption from the registration requirements of the Securities Act.

BGH may not be able to pay dividends or make distributions due to contractual or legal constraints

Following Admission, BGH (as a holding company whose principal assets are the shares of its subsidiaries) will rely primarily on dividends and other statutorily and contractually permissible payments from its subsidiaries to generate reserves necessary to meet its obligations and to pay dividends to its shareholders. Future dividends by BGH will also depend, among other things, on BGH's and the Group's future profits, financial position, distributable reserves, holding capital requirements, general economic conditions and other factors that the BGH Board deems significant from time to time. See Paragraph 29 ("Dividends and dividend policy") of Part XXI "Additional Information" for further details.

The regulatory systems under which the Group operates and certain contractual arrangements to which the Bank and/or its subsidiaries are party restrict, to a certain extent, their ability to pay dividends and/or to otherwise provide cash to BGH. Such restrictions could potentially reduce the pool of cash available to BGH for distribution to holders of BGH Offer Shares (for further information, see Paragraph 46 ("Material Contracts") of Part XXI "Additional Information").

BGH and holders of BGH Offer Shares may be exposed to foreign currency exchange rate risk between the time a dividend is declared and the time a dividend is paid

Although dividends payments on Bank Shares are declared in Lari, they may be paid to non-Georgian holders of Bank Shares in US dollars or Pounds Sterling. Following Admission, as a non-Georgian holder of Bank Shares, BGH will be exposed to currency exchange rate risk between the time a dividend is declared by the Bank and the time the relevant dividend is paid. Any depreciation of the Lari in relation to US dollars or Pounds Sterling (as applicable) between the date on which the dividend is declared and the date on which the relevant dividend is paid will reduce the value of any dividends allocated to the Bank Shares in foreign currency terms. This could, in turn, affect BGH's ability to pay dividends to BGH Shareholders as, following Admission, BGH will rely primarily on dividends and other statutorily and contractually permissible payments from its subsidiaries to generate reserves necessary to meet its obligations and to pay dividends to its shareholders. For further see "BGH may not be able to pay dividends or make distributions due to contractual or legal constraints".

In addition, holders of BGH Offer Shares whose principal currency is not the currency in which a dividend is paid by BGH (the **"BGH Dividend Currency"**) will be exposed to currency exchange rate risk between the time a dividend is declared by BGH and the time the relevant dividend is paid. Any depreciation of the BGH Dividend Currency in relation to a foreign currency between the date on which the dividend is declared and the date on which the dividend is paid will reduce the value of any dividends allocated to the BGH Offer Shares in foreign currency terms.

BGH is subject to English law and the rights of holders of BGH Offer Shares may be different from those rights associated with companies governed by other laws

As BGH is incorporated under the laws of England and Wales, its corporate structure, as well as the rights and obligations of its shareholders, may be different from the rights and obligations of shareholders of Georgian companies listed on the GSE and companies governed by Georgian law. The exercise of pre-emptive and certain other shareholders' rights for Georgian or other holders of BGH Offer Shares resident outside the United Kingdom may be more difficult and costly than the exercise of such rights if BGH were a Georgian company. Resolutions of a general meeting of BGH may be taken with majorities different from the majorities required for adoption of equivalent resolutions in Georgian companies. For further information, see Part XX "Comparison of Shareholder Rights in the Bank and Shareholder Rights in BGH".

Proposed changes to the UK's controlled foreign companies taxation rules may have an adverse effect on the Group

As BGH is incorporated in the United Kingdom, BGH is subject to the UK controlled foreign company (**"CFC"**) rules by virtue of being UK resident for the purposes of those rules. Broadly, the CFC rules can subject companies resident in the United Kingdom for UK tax purposes to UK tax on the income profits of companies not so resident in which they have an interest. Typically, the CFC rules affect companies resident in the United Kingdom for UK tax purposes that hold, alone or together with certain other connected or associated persons, at least 25 per cent. of the ordinary shares in a non-UK resident company, where that non-UK resident company is ultimately controlled by persons who are resident in the United Kingdom for UK tax purposes and is subject to a lower level of taxation in its territory of residence. As a result, BGH may be (or may become) subject to UK tax on the income profits of one or more of its subsidiaries, if such subsidiary fulfills the criteria outlined above and does not fall within a relevant exemption to the CFC legislation. The CFC legislation is not directed towards the UK taxation of capital gains.

Under rules enacted in 2011, a temporary exemption from the CFC legislation is expected to apply to the Group and HM Revenue & Customs (**"HMRC"**) has provided a non-statutory clearance to the Group confirming the expected position. The effect of this exemption applying is that BGH should not be subject to a CFC charge in respect of the profits of any of its subsidiaries arising in accounting periods ending on or before 31 December 2014. However, this exemption will cease to apply to a particular subsidiary of BGH in the event that that subsidiary is party to a "relevant transaction". A "Relevant transaction", for these purposes, includes (amongst other things) the making, increase in the amount or change in the terms of a loan or advance of more than a negligible amount to any person subject to UK tax (which would include BGH). The BGH Directors intend to manage the business of the Group in such a way that, so far as possible, no "relevant transaction" occurs. Moreover, in the event that the temporary exemption did cease to apply prior to 31 December 2014, another exemption may apply to exempt BGH from a CFC charge on the profits of the relevant subsidiary.

In December 2011, HM Treasury and HMRC published a joint consultation document and draft legislation with detailed proposals for wide-ranging reforms to the UK taxation under the CFC rules of income profits of low-taxed non-UK resident companies. The stated aim of the proposed new regime is to target only those circumstances that result in artificial diversion of UK profits. It is expected that the new CFC rules will be enacted in 2012. The effect of the new CFC rules on BGH after the end of its temporary exemption period ending 31 December 2014 will not be clear until the new legislation is published in final form and enacted in its entirety. BGH will monitor the proposed amendments in order to address and seek to mitigate their effects (if any), but the possibility cannot be excluded that, if the Offer becomes wholly unconditional and BGH becomes the new holding company of the Group, the new legislation may have an adverse effect on the Group.

Judgments of foreign courts and arbitral awards may not be enforceable in Georgia

BGH is incorporated in the United Kingdom, but, following Admission, its principal asset will be shares in the Bank. The Bank is a joint stock company incorporated in Georgia and is governed by the laws of Georgia. A substantial portion of the assets of the Bank of Georgia in Georgia and most of the members of the Bank's management and its executive officers reside or are located in Georgia. As a result, it may not be possible for investors to effect service of process upon the Bank or certain members of its management and/or its executive officers. In addition, investors may not be able to bring an original action in Georgia based upon English law, or obtain, or enforce a foreign court judgment based upon English law in Georgia.

Subject to the satisfaction of certain conditions and certain exceptions, foreign court judgments (including judgments of the courts of England and Wales) are recognised and enforceable in Georgia under Articles 68 and 70 of the Law of Georgia on International Private Law. However, no treaty exists between the United Kingdom and Georgia or the United States and Georgia for the reciprocal enforcement of foreign court judgments and Georgian courts have limited experience enforcing foreign court judgments. As a result, investors may not be able to, or may experience significant delays in trying to, enforce judgments obtained in the English courts or any other foreign courts against BGH, its management and/or the BGH Directors.

Holders of BGH Offer Shares may enforce their rights by arbitration. Georgia is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards **("New York Convention")**. Therefore, an arbitral award obtained in a country which is also a party to the New York Convention, such as the United Kingdom, would be recognised and enforceable in Georgia, subject to the terms of the New York Convention and compliance with the Law of Georgia on Arbitration, the Georgian civil procedure regulations and other procedures and requirements established by the Georgian legislation. However, it may be difficult to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions and certain procedural ambiguities, thereby introducing delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia.

The Reduction of Capital may not be implemented on a timely basis or at all

Following Admission, the BGH Directors intend to undertake the Reduction of Capital in order to create distributable reserves in BGH. Implementation of the Reduction of Capital is conditional upon, among other things, approval by the UK Court. There are risks that approval will not be given or not given on acceptable terms and that the Reduction of Capital will not occur on a timely basis or at all. If any of these events happen, the Reduction of Capital will not be implemented and the benefits expected to result from the Reduction of Capital will not be achieved.

PART III

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

The following timetable of Principal Events assumes that the Offer Period is not extended as more fully described in Part B of Part XVIII "Conditions to and Further Terms of the Offer".

Event	Time, Date
Prospectus published	20 December 2011
Offer Period commences	21 December 2011
GDR Expiration Time	5.00 p.m. (New York time)/ 10.00 p.m. (London time) on 20 February 2012/ 2.00 a.m. (Tbilisi time) on 21 February 2012 *Each of DTC, Euroclear and Clearstream will establish its own cut-off date and time for the receipt of instructions by Regulation S GDR Holders wishing to participate in the Offer, which will be earlier than the GDR Expiration Time. Further, DTC, Euroclear and Clearstream participants may set their own earlier cut-off dates and times for customers to give instructions to accept the Offer. GDR Holders who hold Rule 144A GDRs or Regulation S GDRs through a broker, dealer, commercial bank, trust company or other nominee or person must contact that firm or person to determine the cut-off date and time applicable to them.*
Expiration Time	5.00 p.m. (London time)/ 9.00 p.m. (Tbilisi time)/ 12.00 noon (New York time) on 24 February 2012 *Georgian broker(s) (other than Joint Stock Company BG Capital (the* ***"Georgian Exchange Agent"****) may set their own cut-off dates and times for customers to give instructions to accept the Offer. Bank Shareholders who hold Bank Shares through any Georgian broker(s) (other than the Georgian Exchange Agent) must contact that firm or person to determine the cut-off date and time applicable to them.*
Announcement of result of the Offer	on or around 27 February 2012
Offer is anticipated to be declared wholly unconditional	7.00 a.m. (London time)/ 11.00 a.m. (Tbilisi time)/ 2.00 a.m. (New York time) on 28 February 2012
Admission, BGH Offer Shares unconditionally issued and commencement of dealings of BGH Offer Shares on the London Stock Exchange	8.00 a.m. (London time)/ 12.00 p.m. (Tbilisi time)/ 3.00 a.m. (New York time) on 28 February 2012
CREST Euroclear and Clearstream accounts credited for BGH Offer Shares (where applicable)	28 February 2012
Despatch of definitive share certificates in respect of BGH Offer Shares (where applicable)	by 9 March 2012
Reduction of Capital	As soon as reasonably practicable following Admission
Expected delisting and termination of the GDR programme	by 30 June 2012

Unless otherwise stated, all references to times in this Prospectus are to London time. The times and dates given are based on the BGH Directors' current expectations and may be subject to change, in which event, details of the new times and dates will be notified to the UKLA, the London Stock Exchange and (as applicable) the NBG, GSE and the Georgian Exchange Agent and BGH will make an appropriate announcement to a Regulatory Information Service and on the following websites: www.bogh.co.uk and www.bankofgeorgia.ge. These times and dates are indicative only and assume that the Offer is declared wholly unconditional on the earliest possible date.

PART IV

INFORMATION ON THE OFFER

1. Introduction

The GDRs have been admitted to listing on the Official List and admitted to trading on the Main Market (the **"GDR Listing"**) since 2006. In addition, the Bank Shares have been listed on the Georgian Stock Exchange since 2000.

On 5 September 2011, the Bank announced its intention to seek a premium listing of a public limited liability company newly incorporated in England and Wales, namely BGH, which it is proposed will be the new holding company for the Group. Following Admission, the Group intends to seek FTSE index inclusion for BGH. The BGH Directors believe that the premium listing of BGH and FTSE index inclusion will enable the Group to broaden its investor base and increase the liquidity of its securities. It is also anticipated that the premium listing will increase the profile of the Group and increase its exposure to a wider investor community.

Following Admission, the Group intends to maintain its robust corporate governance arrangements, which it has further strengthened in anticipation of the Offer and Admission (see further Part XVII "Directors, Senior Management, Corporate Governance and Employees — Corporate Governance Policy and Board Committees"). As a premium-listed company, BGH will be subject to more extensive and rigorous ongoing reporting and compliance obligations than those that the Bank is currently subject to by virtue of the GDR Listing. In particular, BGH will be required to comply with additional disclosure requirements pursuant to the Disclosure and Transparency Rules, the Listing Rules and the Corporate Governance Code which the BGH Directors believe will provide investors with enhanced transparency.

As announced on the date of this Prospectus, the new corporate structure is being implemented by way of the Offer by BGH for all of the issued and to be issued Bank Shares, whether held directly as Bank Shares or through GDRs (together, the **"Existing Securities"**). The Offer is conditional on, inter alia, Admission. If the Offer is declared wholly unconditional, it will result in the Bank becoming a subsidiary of BGH. Immediately following Admission, the only assets of BGH will be the ordinary share capital of the Bank, a cash balance for the payment of fees and charges incurred pursuant to the Offer and nominal cash balances. Immediately following Admission, BGH will have no material liabilities save for those arising in connection with Admission and the Offer.

The BGH Directors expect that the material assets and liabilities of the Group will be unaffected by the Offer being declared wholly unconditional. In addition, the Offer will not result in any changes to the day-to-day operations of the strategy or business of the Group and, save as set out above, the BGH Directors expect that the Group will have the same operations and business in the same geographic locations before and after the Offer being declared wholly unconditional.

The formal Conditions and further terms of the Offer are set out in Parts A and B of Part XVIII "Conditions to and Further Terms of the Offer" of this Prospectus, the Form of Acceptance and the Certification Form.

2. Summary of the Offer

2.1 Overview

The Offer of BGH Offer Shares is made on the following basis:

For each Bank Share (whether held directly or through a GDR) : 1 BGH Offer Share

The Offer is conditional upon, among other things:

(a) valid acceptances of the Offer being received (and not, where permitted, withdrawn) by no later than 5.00 p.m. (London time) / 9.00 p.m. (Tbilisi time)/ 12 noon (New York time) on 24 February 2012 (or such later time(s) and/or date(s), being no later than the Long Stop Date as BGH may decide) (the **"Expiration Time"**) in respect of not less than 80% in nominal value of the Bank Shares and of the voting rights attached to those shares (or such lower percentage as BGH may decide provided that this Condition will not be satisfied unless BGH shall have acquired or agreed to acquire Bank Shares carrying in aggregate more than 75% of the voting rights then normally exercisable at a general meeting of the Bank) (the **"Acceptance Condition"**); and

(b) the BGH Offer Shares being admitted to the Official List and being admitted to trading on the main market of the London Stock Exchange (**"Admission"**) or, if BGH so determines, the UK Listing Authority having acknowledged to BGH or its agent (and such acknowledgement not having been withdrawn) that the application for admission to the premium segment of the Official List has been approved and (subject to satisfaction of any conditions to which such approval is expressed) will become effective as soon as a dealing notice has been issued by the FSA and an acknowledgement by the London Stock Exchange that the BGH Offer Shares will be admitted to trading on the Main Market (and such acknowledgement not having been withdrawn) (the **"Admission Condition"**); and

(c) approval by the NBG of the acquisition by BGH of more than 50% of the share capital of the Bank.

The remainder of the Conditions are customary for a transaction of this nature. Please see Part XVIII "Conditions to and Further Terms of the Offer" for a more detailed description of the Conditions.

The Offer will lapse unless all of the Conditions have been fulfilled or waived (if capable of waiver) or, where appropriate, have been determined by BGH to be or remain satisfied by the Long Stop Date.

The Bank Shares in respect of which the Offer is accepted will be acquired by BGH under the Offer fully paid and free from all liens, equities, charges, encumbrances, options, rights of pre-emption and any other third-party rights and interests of any nature whatsoever and together with all rights now and hereafter attaching or accruing on them, including, without limitation, voting rights and the right to receive and retain in full all dividends and other distributions (if any) declared, made or payable on or after the date the Offer is declared wholly unconditional.

The BGH Offer Shares will be issued to Participating Holders fully paid and free from all liens, equities, charges, encumbrances, options, rights of pre-emption and any other third-party rights and interests of any nature whatsoever and together with all rights now and hereafter attaching or accruing on them, including, without limitation, voting rights and the right to receive and retain in full all dividends and other distributions (if any) declared, made or payable on or after the date the Offer is declared wholly unconditional.

Further details of the BGH Offer Shares are set out in Paragraph 3.1 of this Part IV. The full Conditions and further terms of the Offer are set out in Part XVIII "Conditions to and Further Terms of the Offer".

2.2 Irrevocable Undertakings and Letters of Intent

The Bank and BGH have received irrevocable undertakings to accept the Offer (the **"Irrevocable Undertakings"**) from certain Existing Holders in respect of, in aggregate, 7,291,348 Existing Securities, representing in aggregate 22.2% of the existing issued share capital of the Bank as at the date of this Prospectus (the **"Bank Share Capital"**).

The Irrevocable Undertakings are conditional on, among other things, BGH having received, or being entitled to receive, valid acceptances, which, when aggregated with the acceptances which such Existing Holders are required to provide pursuant to the Irrevocable Undertakings, equal at least 75% of the Bank Share Capital and the Acceptance Condition not being amended, varied or waived down to below 75%.

The Bank and BGH have also received the IFI Irrevocable Undertakings to accept the Offer from EBRD and IFC, as further described in Paragraph 2.3 of this Part IV.

In addition, between 17 October 2011 and 24 October 2011, the Bank and BGH have received indicative letters of intent to accept the Offer (the **"Letters of Intent"**) from Existing Holders representing in aggregate 39.2% of the Bank Share Capital. Further details of the Irrevocable Undertakings and Letters of Intent are set out in Paragraph 7 ("Irrevocable Undertakings — BGH Directors, Bank Directors, Senior Managers and Employees") and Paragraph 8 ("Irrevocable Undertakings — Existing Holders") of Part XXI "Additional Information".

2.3 Existing Convertible Financing

Pursuant to the IFI Irrevocable Undertakings, each of EBRD and IFC has agreed to convert part of their respective Convertible Subordinated Loans (as defined below) into a total of 1,817,503 Bank Shares each, to be issued fully paid by a conversion of an outstanding principal amount of US$24,951,541.40 (the **"Conversion Option"**). The Bank Shares to be issued pursuant to the Conversion Option to each of EBRD and IFC will comprise (i) 1,736,253 option shares (**"Option Shares"**) to be issued at a price of US$13.80 and (ii) 81,250 anti-dilution shares (**"Anti-Dilution Shares"**) to be issued at a price of US$12.20 (as each term is defined in the IFI Irrevocable Undertakings). The interest rate which would be payable by the Bank on the principal amount of the Convertible Subordinated Loans being converted is six month LIBOR plus 8% per annum.

Subject to the conditions below, prior to the Expiration Time, each of EBRD and IFC has agreed to accept the Offer by delivering to BGH their respective Form of Acceptance and/or Certification Form (duly completed and signed in acceptance of the Offer) in relation to the Bank Shares held by each of them as of the option settlement date.

The exercise by each of EBRD and IFC of their respective Conversion Option and the undertaking by each of EBRD and IFC to accept the Offer is conditional upon certain conditions being satisfied on the option settlement date (which is expected to be approximately one Business Day prior to the Expiration Time) including: (i) the average 20 Business Day closing price of a GDR on the London Stock Exchange being not less than US$11.00; (ii) the level of acceptance of the Offer being not less than 75% (including the Bank Shares to be issued pursuant to the Conversion Option to each of EBRD and IFC) and (iii) the Sponsor not having terminated the Sponsor Agreement.

Each of EBRD and IFC has agreed not to dispose of its interest in any BGH Offer Shares held or to be held pursuant to the exercise of the Conversion Option (or any additional BGH Offer Shares issued to it pursuant to any capital reorganisation of BGH thereafter) for a period of two years following Admission (the **"Lock-up Restrictions"**). In addition to certain customary carve-outs to the Lock-up Restrictions, the Lock-up Restrictions given by EBRD and IFC are subject (inter alia) to continued compliance by the Bank with certain covenants and undertakings relating to anti-corruption and environmental and social policies.

In consideration for EBRD and IFC agreeing to enter into the IFI Irrevocable Undertakings and to exercise the Conversion Option and to be bound by the Lock-up Restrictions, on completion of the Conversion Option, the Bank has agreed to make the following cash payments to each of EBRD and IFC:

a) US$1,000,000 to be paid (i) within 5 Business Days of the date on which the BGH Offer Shares are issued to EBRD and IFC (the **"Issue Date"**), in the event Admission occurs; or (ii) within 5 Business Days of the Long-stop Date, in the event Admission does not occur in accordance with the terms of the Offer;

b) an amount equal to US$450,000 less the amount of any BGH dividend paid or declared (but not yet paid) during the period from the Issue Date up to and including 30 June 2012 (the **"2011 Dividend"**), such payment to be made on 2 July 2012; and

c) an amount equal to US$550,000 less the aggregate of (i) the amount of any BGH dividend paid (except for the BGH dividend that has been declared on or before 30 June 2012 but paid thereafter) or declared (but not yet paid) during the period from and including 1 July 2012 up to and including 30 June 2013 and (ii) the amount (if any) by which the 2011 Dividend exceeded US$450,000, such payment to be made on 1 July 2013 (together with the payment referred to in Paragraph (b) above, the **"Early Redemption Amounts"**).

The Bank shall only be obliged to pay the Early Redemption Amounts on the basis that the Lock-up Restrictions continue to apply to EBRD and IFC (respectively) on the relevant payment dates stipulated in Paragraphs (b) and (c) above.

2.4 Share plans

The Bank currently operates two share plans, the Rubicon Executive Equity Compensation Plan **("REECP")** and the Senior Executive Equity Compensation Plan **("SEECP")**. Awards under the REECP and SEECP are intended to be settled with shares held in the Rubicon Executive Equity Compensation Trust (the **"Trust"**). Awards under the REECP and SEECP will continue to be made by the trustee of the Trust (the **"Trustee")** on the recommendation of the Bank, but following Admission the prior approval of the Remuneration Committee of BGH (the **"BGH Remuneration Committee")** will also be required and the Awards will be made over BGH Offer Shares. A new share plan of BGH will only be implemented, if approved by BGH Shareholders, at the time when the GDRs (to the extent still applicable), or BGH Offer Shares, allocated for awards under the SEECP before Admission have been exhausted.

Under the terms of the REECP, existing awards over GDRs under the REECP will be exchanged for new awards under the REECP over BGH Offer Shares when the Offer is declared wholly unconditional. Award holders will be asked to return their award documentation and be issued with new documentation in relation to their new awards over BGH Offer Shares.

The imposition of BGH will not constitute a change of control such as to trigger vesting of the awards under the SEECP. Awards over GDRs existing when the Offer is declared wholly unconditional will be exchanged for new awards over BGH Offer Shares. The consent of award holders is not needed for this exchange, but award holders will be asked to return their award documentation and be issued with new documentation in relation to their new awards over BGH Offer Shares.

3. Share capital of BGH

3.1 BGH Shares

As at the date of this Prospectus, the issued share capital of BGH was the Subscriber Share and 50,000 Redeemable Shares. Upon the first issue of BGH Offer Shares, the Subscriber Share will be acquired by BGH for nil consideration and cancelled. It is expected that the Redeemable Shares will be redeemed following Admission.

Upon Admission and assuming the full Debt Conversion:

(a) if acceptances are received in respect of all of the Bank Shares, the enlarged issued share capital of BGH will be 36,512,533 BGH Offer Shares plus the Redeemable Shares;

(b) if acceptances are received in respect of 80% of the Bank Shares, the enlarged issued share capital of BGH will be 29,210,042 BGH Offer Shares plus the Redeemable Shares; or

(c) if acceptances are received in respect of 75% of the Bank Shares, the enlarged issued share capital of BGH will be 27,384,415 BGH Offer Shares plus the Redeemable Shares.

The enlarged issued share capital under Paragraph (a) above will not include any Class A Shares that are issued in connection with the Reduction of Capital.

If, however, the Debt Conversion does not occur, upon Admission:

(a) if acceptances are received in respect of all of the Bank Shares, the enlarged issued share capital of BGH will be 32,877,547 BGH Offer Shares plus the Redeemable Shares;

(b) if acceptances are received in respect of 80% of the Bank Shares, the enlarged issued share capital of BGH will be 26,302,038 BGH Offer Shares plus the Redeemable Shares; or

(c) if acceptances are received in respect of 75% of the Bank Shares, the enlarged issued share capital of BGH will be 24,658,160 BGH Offer Shares plus the Redeemable Shares.

The enlarged issued share capital under Paragraph (a) above will also include any Class A Shares that are issued in connection with the Reduction of Capital.

The Board is authorised inter alia to allot up to 40,000,000 BGH Offer Shares (being in excess of the maximum number of Ordinary Shares that would be required if the Offer is accepted in full and assuming the full Debt Conversion). The BGH Offer Shares will be issued credited as fully paid and will rank pari passu in all respects with one another and will be entitled to all dividends and other distributions declared, made or paid by BGH in respect of Ordinary Shares on or after the date on which the Offer is declared wholly unconditional. See Paragraph 4 — "Dividend Policy" below. The BGH Offer Shares will be created under the Companies Act, will be in registered form and will be capable of being held in both certificated and uncertificated form. A summary of the principal differences between the rights attaching to the BGH Offer Shares, the GDRs and the Bank Shares is set out in Part XX "Comparison of Shareholders Right in the Bank and Shareholder Rights in BGH" and a summary of the Articles is set out in Part XIX "Summary of BGH Articles of Association".

Application will be made to the UK Listing Authority for the BGH Offer Shares to be admitted to the premium segment of the Official List and to the London Stock Exchange for the BGH Offer Shares to be admitted to trading on the Main Market. When admitted to trading, the BGH Offer Shares will be registered with international security identification number (**"ISIN"**) GB00B759CR16 and Stock Exchange Daily Official List (**"SEDOL"**) number B759CR1. Listing of the BGH Offer Shares is not being sought on any stock exchange other than the London Stock Exchange.

It is expected that Admission will become effective and unconditional dealings in BGH Offer Shares will commence on or about 28 February 2012.

3.2 Reduction of Share Capital

Following Admission, the BGH Directors intend to undertake the Reduction of Capital in order to create distributable reserves for BGH. If there is a difference between the nominal value of the BGH Offer Shares and the fair value of the Bank Shares, either a share premium account or a merger reserve will be created in connection with the Offer. In either event, it is the intention of the BGH Directors that the maximum amount of distributable reserves is created and therefore any merger reserve created in connection with the Offer will be capitalised into Class A Shares. The Class A Shares will be allotted *pro rata* to holders of Bank Shares who have validly accepted the Offer and are registered or are entitled to be registered as holders of BGH Offer Shares (or, if BGH so determines, to such person as BGH may procure as nominee for such holders). The BGH Directors intend to implement a court approved reduction of capital which reduces the nominal value of the BGH Offer Shares and either: (i) cancels the share premium account (if any); or (ii) cancels all of the Class A Shares (if any) in issue resulting from the capitalisation of any merger reserve.

The BGH Offer Shares will have a nominal value of £6.00 per BGH Offer Share (or such lower nominal value as the BGH Directors shall decide in order to avoid allotting the BGH Offer Shares at a discount). Following the Reduction of Capital the nominal value of the BGH Offer Shares will be reduced to £0.01. If there is full acceptance of the

Offer and the full Debt Conversion occurs the Reduction of Capital will create a new reserve on the balance sheet of BGH of approximately £219,000,000 (assuming a reduction from £6.00 to £0.01 per BGH Offer Share) plus the aggregate nominal amount of all of the Class A Shares which are cancelled. The Reduction of Capital is a legal and accounting adjustment and will not, of itself, have any direct impact on the market value of the BGH Offer Shares.

By way of a special resolution passed at a general meeting of BGH held on 12 December 2011, the holder of the Subscriber Share approved the Reduction of Capital subject to the Offer being declared wholly unconditional.

The Reduction of Capital will only become effective if it is approved by the UK Court pursuant to the Companies Act. As soon as possible following the date of this Prospectus, the BGH Directors intend to apply to the UK Court to approve the Reduction of Capital. It is expected that the Court Hearing will be held shortly after Admission. As a newly incorporated company, BGH has few creditors, all of whom have consented or are expected to consent to the Reduction of Capital and it is not expected that the UK Court will require any special measures to be implemented to protect creditors (but if required to do so BGH will put in place such reasonable measures as required by the UK Court). The reserves created by the Reduction of Capital will be available for distribution subject to BGH complying with the distributions provisions of the Companies Act.

Subject to Admission, the Reduction of Capital is expected to become effective on or around 14 March 2012.

4. Dividend policy

Information on the Board's intentions in respect of dividends is set out in Paragraph 29 ("Dividends and dividend policy") of Part XXI "Additional Information". Further information on the taxation of dividends paid to holders of BGH Offer Shares is set out in Paragraphs 31 ("UK Taxation"), 34 ("Dividends") and 39 ("Taxation of Dividends") of Part XXI "Additional Information".

5. Liquidity of Existing Securities following Admission and Delisting of the GDRs and Bank Shares

If the Offer is declared wholly unconditional, settlement of the Offer will lead to reduced marketability and liquidity in the Existing Securities.

In addition, following Admission, the Bank intends to apply to the UK Listing Authority and the London Stock Exchange to cancel the GDR Listing in accordance with the Listing Rules and the Admission and Disclosure Standards.

Delisting will significantly reduce the marketability and liquidity of any GDRs in respect of which the Offer has not been accepted.

Upon such delisting of the GDRs, the GDR programme will be terminated. In such circumstances, any remaining GDR Holders would need to open a securities account in Georgia and, in accordance with the Deposit Agreement, would then receive the relevant number of Bank Shares in exchange for their GDRs. If the Offer lapses or is withdrawn, the Bank intends to maintain the GDR Listing.

Furthermore, following Admission, the Bank may consider applying to the Georgian Stock Exchange to cancel the Georgian Listing. In such circumstances, Bank Shareholders who have not accepted the Offer would be left with an unlisted security.

If the Offer is declared wholly unconditional then Existing Holders who do not validly accept the Offer will hold Bank Shares for which there may be no listing and accordingly, the liquidity and marketability of such shares is likely to be significantly adversely effected.

6. Compulsory Acquisition of Bank Shares

If the Offer is declared wholly unconditional and valid acceptances are received in respect of more than 95% of the Bank Shares or, if BGH increases its holding to more than 95% of the Bank Shares at any time, BGH will seek to compulsorily acquire any remaining Bank Shares in accordance with Georgian law.

Under Georgian law, a shareholder who holds more than 95% of a company's voting shares has the right to compulsorily acquire the shares held by the minority shareholders in the company at a fair price, which must be satisfied in cash. Accordingly, if BGH acquires more than 95% of the Bank Shares, it may apply to the Georgian Court to seek approval for the compulsory acquisition of the shares in the Bank held by minority shareholders. Provided approval is given by the Georgian Court, any such order of the Georgian Court will also determine the fair price at which such shares are to be compulsorily acquired and the date of the acquisition. Georgian law requires BGH to publish an announcement in newspapers published in Georgia specifying the terms of the intended compulsory acquisition at least one month prior to making any such application to the Georgian Court.

The Georgian Court has one month in which to consider an application for compulsory acquisition and the terms on which it is to be made. As part of these considerations, the Georgian Court is required to appoint an independent expert or brokerage company to prepare a report on the proposed compulsory acquisition, including determination as to the fair price for the minority shares. The shareholder applying for the order for the compulsory acquisition will be responsible for the fees of the independent expert or brokerage company (as the case may be).

In the event that BGH successfully obtains such approval from the Georgian Court, Joint Stock Company Kavkasreestri (the **"Georgian Registrar"**) will confirm the identity of the Bank Shareholders whose Bank Shares are to be compulsorily acquired and will then transfer such shares to the account of BGH. In consideration for the transfer, BGH will deposit the relevant amount of cash consideration, reflecting the price determined by the Georgian Court, in an escrow account maintained by a bank, central depositary or licensed broker, who will in turn transfer the relevant amounts to such Bank Shareholders. BGH has a number of possible sources of such funds available to it, including, but not limited to, external debt funding and potential dividend payments received from the Bank, the exact source to be determined at the relevant time.

Existing Holders should note that Georgian law does not provide them with the right to require BGH to acquire all of the outstanding Bank Shares not owned by it following completion of the Offer, regardless of the percentage of the Bank Shares acquired by BGH pursuant to the Offer. Accordingly, Existing Holders who wish to receive BGH Offer Shares should accept the Offer.

7. Recommendation

Following due and careful consideration of the strategic and the financial consequences of the proposed transaction, the Bank Supervisory Board and Bank Management Board have concluded that the Offer is in the best interests of the Bank and the Existing Holders.

The Bank Supervisory Board and Bank Management Board consider the terms of the Offer to be fair and reasonable. Accordingly, the members of the Bank Supervisory Board and Bank Management Board unanimously recommend that Existing Holders accept the Offer, as they intend to do (or procure to be done) in respect of their own beneficial holdings of Existing Securities.

Existing Holders are urged to evaluate carefully all information contained in the Tender Offer Documents, consult their own investment, tax and legal advisors and are urged to make their own decision whether to accept the Offer.

8. Procedures for Acceptance of the Offer

FAILURE OF AN EXISTING HOLDER TO COMPLY WITH THE APPLICABLE PROCEDURES DESCRIBED BELOW MAY RESULT IN AN INVALID ACCEPTANCE OF THE OFFER WITH RESPECT TO THE RELEVANT EXISTING SECURITIES.

8.1 General

Bank Shareholders who wish to accept the Offer with respect to all or any portion of their Bank Shares must follow the procedures described in Paragraph 5.2 of Part B of Part XVIII "Conditions to and Further Terms of the Offer", the Tender Offer Proposal, the Form of Acceptance and the Certification Form.

GDR Holders who wish to instruct the Exchange Agent to accept the Offer in respect of the Bank Shares underlying all or any portion of their GDRs must follow the procedures described in Paragraphs 5.3 and 5.4 of Part B of Part XVIII "Conditions to and Further Terms of the Offer" and the Certification Form, save with respect to such amendments as may be agreed by BGH and the Depositary from time to time.

Existing Holders who wish to accept the Offer with respect to Bank Shares and to procure the acceptance of the Offer with respect to Bank Shares underlying GDRs must follow the individual procedures described for each of the Bank Shares and GDRs in Paragraphs 5.2, 5.3 and 5.4 of Part B of Part XVIII "Conditions to and Further Terms of the Offer", respectively, and the Tender Offer Proposal, Form of Acceptance and Certification Form (as applicable).

The specific procedures for accepting the Offer vary depending on whether the Existing Holder is accepting the Offer with respect to Bank Shares and, in the case of Bank Shares, whether such Bank Shares are held on an account with the Georgian Registrar, through the nominee holding of the Georgian Exchange Agent or through the nominee holding of any Georgian broker (other than the Georgian Exchange Agent) or with respect to GDRs and, in the case of GDRs, whether such GDRs are held through DTC, Euroclear or Clearstream.

See immediately below and Part B of Part XVIII "Conditions to and Further Terms of the Offer" for further details.

8.2 Bank Shares

(a) Bank Shareholders who wish to accept the Offer with respect to all or any portion of their Bank Shares must follow these procedures (as applicable):

(i) Registered owners who hold Bank Shares directly through their personal account with the Georgian Registrar must as soon as possible and, in any event, prior to the Expiration Time:

(A) open a brokerage and nominee holdings account **("Brokerage Account")** with the Georgian Exchange Agent by providing the necessary identification documents and completing the requisite forms;

(B) complete, execute and return to the Georgian Exchange Agent a Form of Acceptance and a Certification Form;

(C) execute or procure the execution by an authorised attorney of a transfer order in the presence of the Georgian Registrar to transfer the relevant number of Bank Shares to which the Shareholder Acceptance relates into a nominee holding of the Georgian Exchange Agent prior to the Expiration Time (re-registration of title with respect to the Bank Shares may take several days and accordingly the instructions to transfer the Bank Shares to the nominee holding of the Georgian Exchange Agent should be made sufficiently in advance of the Expiration Time, so that the transfer is effective prior to the Expiration Time); and

(D) execute an instruction to the Georgian Exchange Agent with respect to transfer and delivery of BGH Offer Shares, which stipulates that unless the Bank Shareholders withdraw their acceptance prior to the Expiration Time, provided the Offer is declared wholly unconditional pursuant to the terms of the Offer, the Georgian Exchange Agent must transfer their Bank Shares to BGH and accept the BGH Offer Shares as consideration for such transfer (an **"Instruction")**.

(ii) Registered owners holding Bank Shares through a nominee holding of the Georgian Exchange Agent and having accounts with the Georgian Exchange Agent must as soon as possible and, in any event, prior to the Expiration Time execute an Instruction, as well as instruct the Georgian Exchange Agent as to how to complete and execute a Form of Acceptance and a Certification Form.

(iii) Registered owners holding Bank Shares through a nominee holding of any Georgian broker(s) (other than the Georgian Exchange Agent) must as soon as possible and, in any event, prior to the Expiration Time:

(A) either:

(aa) instruct the broker(s) to open a Brokerage Account with the Georgian Exchange Agent and transfer the relevant Bank Shares to the nominee holding of the Georgian Exchange Agent; or

(bb) where the broker(s) already has a Brokerage Account with the Georgian Exchange Agent, instruct the broker(s) to transfer the relevant Bank Shares to the nominee holding of the Georgian Exchange Agent;

and instruct the broker(s) to execute an Instruction, as well as instruct the broker as to how to complete and execute a Form of Acceptance and a Certification Form and return such Form of Acceptance and Certification Form to the Georgian Exchange Agent; or

(B) withdraw such Bank Shares from the nominee holding of that Georgian broker to its securities account with the Georgian Registrar and then follow the procedures and requirements set forth in Paragraph 8.2(a)(i) above.

Georgian brokers (other than the Georgian Exchange Agent) may set their own cut-off dates and times for customers to give instructions to accept the Offer. Bank Shareholders who hold Bank Shares through any Georgian broker(s) (other than the Georgian Exchange Agent) must contact that firm or person to determine the cut-off date and time applicable to them.

(b) In place of delivering a Form of Acceptance, the acceptance may be made orally to the designated representative of the Georgian Exchange Agent, provided that the Georgian Exchange Agent confirms the receipt of acceptance to the relevant Bank Shareholder in writing.

(c) In order to accept the Offer a Bank Shareholder must make the certifications as provided in the Certification Form. See Paragraphs 5 and 9 of Part B of Part XVIII "Conditions to and Further Terms of the Offer" for further information.

(d) The attention of Bank Shareholders who are resident or located in, or citizens or residents of, jurisdictions other than the UK or Georgia is drawn to Paragraph 9 of this Part IV and Paragraph 9 of Part B of Part XVIII "Conditions to and Further Terms of the Offer".

8.3 Acceptance by Regulation S GDR Holders

(a) GDR Holders who wish to instruct the Exchange Agent to accept the Offer with respect to all or any portion of Bank Shares underlying their Regulation S GDRs must cause an Electronic Instruction to be transmitted to the relevant Clearing System to be received by such Clearing System prior to the cut off time set by such Clearing System for acceptance of the Offer. **Each of Euroclear and Clearstream will establish its own cut-off date and time for the receipt of instructions by Regulation S GDR Holders wishing to participate in the Offer, which will be earlier than the GDR Expiration Time. Further, Euroclear and Clearstream participants may set their own earlier cut-off dates and times for customers to give instructions to accept the Offer. GDR Holders who hold Regulation S GDRs through a broker, dealer, commercial bank, trust company or other nominee or person must contact that firm or person to determine the cut-off date and time applicable to them.**

(b) GDR Holders holding Regulation S GDRs through Euroclear or Clearstream who instruct that the Offer be accepted on their behalf with respect to all or any portion of Bank Shares underlying their Regulation S GDRs will have the relevant Regulation S GDRs blocked in the relevant Clearing System. Regulation S GDRs subsequently withdrawn from the Offer prior to the GDR Expiration Time in accordance with Paragraph 3 of Part B of Part XVIII "Conditions and Further Terms of the Offer" will be unblocked in the Clearing Systems.

(c) GDR Holders who hold Regulation S GDRs through Euroclear or Clearstream should print out, complete, execute and retain a Certification Form, but do not need to send it to the Exchange Agent or BGH in order to validly instruct the Exchange Agent to accept the Offer (unless expressly requested to do so by the relevant Clearing System, the Exchange Agent or BGH). In order to accept the Offer a GDR Holder must make the certifications as provided in the Certification Form.

(d) **The cancellation fee of US$0.05 per GDR ordinarily payable under the Deposit Agreement by a GDR Holder who surrenders its GDRs and requests delivery to it of the Bank Shares underlying its GDRs or who receives the net proceeds of the sale of those Bank Shares following termination of the Deposit Agreement will not be payable by GDR Holders who exchange their GDRs for BGH Offer Shares pursuant to the Offer as the Bank has agreed to pay the fee on their behalf.**

(e) The attention of GDR Holders who are resident or located in, or citizens or residents of, jurisdictions other than the UK and Georgia is drawn to Paragraph 9 of this Part IV and Paragraph 9 of Part B of Part XVIII "Conditions to and Further Terms of the Offer".

8.4 Acceptance by Rule 144A GDR Holders

(a) GDR Holders who wish to instruct the Exchange Agent to accept the Offer with respect to all or any portion of Bank Shares underlying their Rule 144A GDRs must transmit their acceptance via an ATOP Instruction through DTC's ATOP as soon as possible and in any event by the cut-off date and time set by DTC which will be earlier than the GDR Expiration Time.

(b) **DTC participants may set their own earlier cut-off dates and times for customers to give instructions to accept the Offer. GDR Holders who hold Rule 144A GDRs through a broker, dealer, commercial bank, trust company or other nominee or person must contact that firm or person to determine the cut-off date and time applicable to them.** GDR Holders wishing to accept the Offer should note that such GDR Holders must allow sufficient time for completion of the ATOP procedures during the normal business hours of DTC and in any event on, or prior to, the GDR Expiration Time. An Agent's Message must be transmitted to and received by the Exchange Agent at, or prior to, the GDR Expiration Time.

(c) GDR Holders who wish to instruct the Exchange Agent to accept the Offer with respect to all or any portion of Bank Shares underlying their Rule 144A GDRs must print out, complete and execute a Certification Form and deliver it to the Exchange Agent to be received before the GDR Expiration Time.

(d) GDR Holders who have given an instruction to accept the Offer must also complete and return a Delivery Instruction Notice specifying whether they wish to receive the BGH Offer Shares to which they are entitled under the Offer in uncertificated form in CREST or in certificated form. GDR Holders wishing to receive BGH Offer Shares in uncertificated form must provide details of a valid CREST stock account in the Delivery Instruction Notice. GDR Holders wishing to receive BGH Offer Shares in certificated form must provide an address in the Delivery Instruction Notice where the BGH Offer Shares shall be delivered. The Delivery Instruction Notice must be returned to the Exchange Agent to be received before the GDR Expiration Time. If the Exchange Agent does not receive the Delivery Instruction Notice from the GDR Holder by the GDR Expiration Time or the CREST details contained in such Delivery Instruction Notice are incorrect or the GDR Holder has elected to receive BGH Offer Shares in certificated form, such GDR Holder will be issued BGH Offer Shares in certificated form. The delivery of BGH Offer Shares in certificated form will take place several Business Days after the delivery of BGH Offer Shares in uncertificated form through CREST.

(e) **The cancellation fee of US$0.05 per GDR ordinarily payable under the Deposit Agreement by a GDR Holder who surrenders its GDRs and requests delivery to it of the Bank Shares underlying its GDRs or who receives the net proceeds of the sale of those Bank Shares following termination of the Deposit Agreement will not be payable by GDR Holders who exchange their GDRs for BGH Offer Shares pursuant to the Offer as the Bank has agreed to pay the fee on their behalf.**

(f) The attention of GDR Holders who are resident or located in, or citizens or residents of, jurisdictions other than the UK and Georgia is drawn to Paragraph 9 of this Part IV and Paragraph 9 of Part B of Part XVIII "Conditions to and Further Terms of the Offer".

9. Overseas Existing Holders

Existing Holders who are resident or located in, or citizens or nationals of, jurisdictions outside the United Kingdom and Georgia (**"Overseas Existing Holders"**) or who are holding Existing Securities for such citizens or residents and any person (including, without limitation, any custodian, nominee or trustee) who may have an obligation to forward any document in connection with the Offer outside the United Kingdom or Georgia should read Paragraph 9 of Part B of Part XVIII "Conditions to and Further Terms of the Offer" before taking any action.

The making of the Offer to Overseas Existing Holders or to persons who are custodians, nominees of or trustees for such persons and the availability of the BGH Offer Shares to such persons may be prohibited or affected by the laws of the relevant jurisdiction. Such Overseas Existing Holders should inform themselves about and observe any applicable legal requirements of such jurisdictions. It is the responsibility of any Overseas Existing Holders wishing to accept the Offer to satisfy himself/herself as to the full observance of the laws and regulatory requirements of the relevant jurisdiction in connection with the Offer, including obtaining any governmental, exchange control or other consents which may be required or compliance with other necessary formalities needing to be observed and the payment of any issue, transfer or other taxes or duties or other requisite payments due in that jurisdiction. Any such Overseas Existing Holders shall be responsible for any such issue, transfer or other taxes or duties or other payments by whomsoever payable and BGH (and any person acting on behalf of BGH) shall be fully indemnified and held harmless by such Overseas Existing Holders for any such issue, transfer or other taxes or duties or other payments which BGH (and any person acting on behalf of BGH) may be required to pay.

Overseas Existing Holders should consult their own legal, financial and tax advisers with respect to the legal, financial and tax consequences of the Offer in their particular circumstances.

The Offer is not being made, directly or indirectly, in, into or from, or by use of the mails of, or by any means of instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission or telephone) of interstate or foreign commerce of, or by means of any facility of a national, state or other securities exchange of any Restricted Jurisdiction and the Offer is not capable of acceptance by any such use, means, instrumentality or facility or from within such Restricted Jurisdiction (unless otherwise determined by BGH).

The Offer is being made in the United States in reliance on, and in compliance with, Rule 14d-1(d) under the Exchange Act. The Offer is being made subject to United Kingdom disclosure requirements which are different from certain United States disclosure requirements. In addition, US investors should be aware that this Prospectus has been prepared in accordance with a United Kingdom format and style, which differs from the United States format and style. In particular, parts of this Prospectus contain information concerning the Offer required by UK disclosure requirements which may be material and may not have been summarised elsewhere in the document. Furthermore, the payment and settlement procedure with respect to the Offer will comply with the relevant United Kingdom rules and practice, which differ from United States payment and settlement procedures. BGH will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and the rules and regulations thereunder in connection with the Offer.

BGH Offer Shares have not been, and will not be, registered under the Securities Act or under any securities laws of any state or other jurisdiction of the United States. BGH Offer Shares may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Offer is being made in the United States in reliance on the exemption from the registration requirements of the Securities Act provided by Section 4(2) of that Act. All Existing Holders who intend to accept, or procure the acceptance of, the Offer will be required to complete and execute a Certification Form containing certain acknowledgements, representations, warranties and agreements. US Holders that certify that they are qualified institutional buyers **("QIBs")**, as defined in Rule 144A under the Securities Act, or institutional accredited investors, within the meaning of Rule 501(a) under the Securities Act, and otherwise satisfy the requirements set forth in the Certification Form **("Participating US Holders")** will receive BGH Offer Shares in consideration for tendering their Existing Securities in accordance with the terms of the Offer. In order to accept the Offer, Existing Holders must make the certifications as provided in the Certification Form. See Paragraphs 5 and 9 of Part B of Part XVIII "Conditions to and Further Terms of the Offer" for further information.

10. Settlement

Subject to the Offer being declared wholly unconditional, settlement of the BGH Offer Shares to which any Participating Holders (or the first named Existing Holder in the case of joint investors) are entitled under the Offer will be implemented within 14 days of the Offer being declared wholly unconditional through the issue and delivery of the relevant number of BGH Offer Shares as described below.

Upon allotment and issuance of the relevant BGH Offer Shares, the delivery of the relevant number of BGH Offer Shares to the Existing Holders will be effected as follows:

(a) with respect to Bank Shareholders, by delivery in uncertificated form to the account of the Bank in Euroclear and crediting such Bank Shareholders' direct or indirect accounts with the Georgian Exchange Agent;

(b) with respect to Regulation S GDR Holders who delivered a valid acceptance through Euroclear or Clearstream, by delivery to Euroclear or Clearstream for distribution by Euroclear or Clearstream, as applicable, to such GDR Holders; and

(c) with respect to Rule 144A GDR Holders who delivered a valid acceptance through ATOP, by delivery in uncertificated form in CREST to the accounts of such Rule 144A GDR Holders who have provided CREST delivery instructions or by delivery in certificated form if incorrect CREST delivery details have been provided or a Rule 144A GDR Holder has elected to receive such BGH Offer Shares in certificated form.

If any Existing Securities are not accepted by BGH under the Offer, including as a result of the Offer being terminated or not being declared wholly unconditional:

(a) in the case of Bank Shares, the relevant Bank Shares will be held by the Georgian Exchange Agent for the Bank Shareholders until further instructions are received;

(b) in the case of Regulation S GDRs, the Regulation S GDRs will be released for trading in accordance with Euroclear's or Clearstream's normal procedures; and

(c) in the case of Rule 144A GDRs, the Rule 144A GDRs will be returned to the account from which they were delivered to the Exchange Agent.

All remittances, communications, notices, certificates and documents of title sent by, to or from Existing Holders or their appointed agents will be sent at their own risk.

11. Taxation

The attention of Existing Holders is drawn to Paragraphs 31 to 42 (inclusive) of Part XXI "Additional Information" which deal with taxation. An Existing Holder who is in any doubt as to his/her tax position or is subject to taxation in any jurisdiction other than the United Kingdom or Georgia, should consult an appropriate professional adviser immediately.

12. Further Information

The terms and Conditions of the Offer are set out in full in Part XVIII "Conditions to and Further Terms of the Offer". The attention of Existing Holders is drawn to the risk factors set out in Part II "Risk Factors", the Conditions and further terms of the Offer set out in Part XVIII "Conditions and Further Terms of the Offer", the information on the Group contained in Part XXI "Additional Information" and certain financial information on the Group set out in Part IX "Selected Consolidated Financial and Operating Information". The attention of the Existing Holders is also drawn to Part XX "Comparison of Shareholder Rights in the Bank and Shareholder Rights in BGH".

Questions and requests for assistance in connection with the Offer may be directed to the Georgian Information Agent (in relation to acceptances of the Offer with respect of the Bank Shares) or the Information Agent (in relation to acceptances of the Offer with respect to the GDRs) at their respective addresses and telephone numbers set forth below.

Neither the Georgian Information Agent nor the Information Agent will provide any recommendation or investment advice in relation to the Offer.

The Tender Offer Documents and any announcements with respect to the Offer and the contact details of the Georgian Exchange Agent and the Exchange Agent are and will be made available at: www.bogh.co.uk and www.bankofgeorgia.ge. For information and documentation regarding the Offer, including any required Forms of Acceptance and Certification Forms, please contact the Georgian Information Agent (in respect of Bank Shares) or the Information Agent (in respect of GDRs) at:

In respect of Bank Shares: Georgian Information Agent

Joint Stock Company BG Capital

By post:	7 Chavchavadze Ave./11 Mosashvili Str. 0179 Tbilisi Georgia
By telephone:	+995 322 44 46 85
By email:	bo@bgcap.ge

In respect of GDRs: Information Agent

DF King Worldwide	**London**	**New York**
By post:	One Ropemaker Street London EC2Y 9AW	48 Wall Street New York NY 10005
By telephone:	**European Help Line** 00 800 5464 5464 (toll free in Europe) +44 20 7920 9700	**North American Help Line** +1 (800) 549 6650 (toll free in North America) +1 (212) 269 5550
By email:	BoG@king-worldwide.com	BoG@king-worldwide.com

Calls to the Georgian Information Agent or Information Agent may incur additional costs, in addition to the relevant service provider's network extras. Calls to the helpline from outside Georgia or the UK or the US (as applicable) will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes.

For legal reasons, the helpline will only be able to provide information contained in the Tender Offer Documents and will be unable to give advice on the merits of the Offer or as to whether or not you should accept the Offer or provide any other financial, tax, legal or investment advice.

PART V

DOCUMENTS INCORPORATED BY REFERENCE

The Three Year Audited Financial Statements and the accompanying auditors' report (contained on pages 60 to 145, inclusive, of the Group's Annual Report 2010) which have previously been published and have been filed with the FSA, shall be incorporated in, and form part of, this Prospectus. Copies of documents incorporated by reference in this Prospectus will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months from the date of publication of this Prospectus at the offices of BGH at 84 Brook Street, London, W1K 5EH, United Kingdom.

PART VI

PRESENTATION OF INFORMATION

Cautionary Note Regarding Forward-Looking Statements

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

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

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

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

Presentation of Financial and Other Information

Financial Information

The Group's audited consolidated financial statements as of and for the six months ended 30 June 2011 (the **"Six Month Audited Financial Statements")** (included in this Prospectus beginning on page F-1) and the Group's audited consolidated financial statements as of and for the years ended 31 December 2010, 2009 and 2008 (the **"Three Year Audited Financial Statements")** incorporated into this Prospectus by reference (the Six Month Audited Financial Statements and the Three Year Audited Financial Statements together, the **"Audited Financial Statements"**), have been prepared in accordance with International Financial Reporting Standards **("IFRS")** issued by the International Accounting Standards Board (the **"IASB"**), including all International Accounting Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee of the IASB that are relevant to the Group's operations. The Audited Financial Statements were audited by the Bank's independent auditors, Ernst & Young LLC, in accordance with International Standards on Auditing (**"ISA"**).

Unless otherwise stated, the financial information relating to the Group has been extracted from the audited consolidated financial statements of the Group for the relevant financial year (presented in accordance with IFRS, as adopted by the European Union). All unaudited financial information in this Prospectus has been extracted without material adjustment from the Group's unaudited management accounts. Certain amounts that appear in this Prospectus have been subject to rounding adjustments.

Non-IFRS Measures

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

Market, Industry and Economic Information

BGH obtained the market data used in this Prospectus from internal surveys, industry sources and public information currently available. The main source for market information and foreign exchange data used in this Prospectus is the NBG. BGH obtained Georgian macroeconomic data principally from Geostat and the government of Georgia. Information regarding the banking market in Ukraine and Belarus has been obtained from the National Bank of Ukraine (the **"NBU"**) and the NBRB. BGH accepts responsibility for having accurately reproduced information obtained from third parties, and, so far as BGH is aware and has been able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

General Information

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

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

Capitalised terms have the meanings ascribed to them in Part XXII — "Definitions" of this Prospectus.

Enforceability of Foreign Judgements and Arbitral Awards

BGH is incorporated in the United Kingdom, but, following Admission, its principal asset will be Bank Shares. The Bank is a joint stock company incorporated in Georgia and is governed by the laws of Georgia. A substantial portion of the assets of Bank of Georgia are located in Georgia and most of the members of the Bank's Management Board and its executive officers reside or are located in Georgia. As a result, it may not be possible for investors to effect service of process upon Bank of Georgia or any members of the Bank Management Board and/or its executive officers. In addition, investors may not be able to bring an original action in Georgia based upon English law, or obtain, or enforce a foreign court judgment based upon English law in Georgia.

Subject to the satisfaction of certain conditions, foreign court judgments (including judgments of the courts of England and Wales) are recognised and enforceable in Georgia under Articles 68 and 70 of the Law of Georgia on International Private Law. In general, foreign court judgments are recognised and enforceable in Georgia unless: (a) the matter is within the exclusive competence of Georgia; (b) there has been a violation of procedure relating to the service of process or other procedural irregularities under the law of the country of the court which rendered the judgment; (c) 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 and the relevant court judgment has been recognised in Georgia; (d) the court rendering the judgment is not considered competent to adjudicate the dispute under Georgian legislation; (e) the country whose court has rendered the judgment does not recognise judgments of Georgian courts; (f) a dispute involving the same subject matter between the same parties is already being heard in a Georgian court or (g) the judgment of the foreign court contradicts fundamental legal principles of Georgia. However, no treaty exists between the United Kingdom and Georgia or the United States and Georgia for the reciprocal enforcement of foreign court judgments and Georgian courts have limited experience enforcing foreign court judgments. As a result, investors may not be able to, or may experience significant delays in trying to, enforce judgments obtained in the English courts or any other foreign courts against Bank of Georgia, its management and/or its executive directors.

Georgia is a party to the New York Convention. Therefore, an arbitral award obtained in a country which is also a party to the New York Convention, such as the United Kingdom, would be recognised and enforceable in Georgia, subject to the terms of the New York Convention and compliance with the Law of Georgia on Arbitration, the Georgian civil procedure regulations and other procedures and requirements established by the Georgian legislation. However, it may be difficult to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions and certain procedural ambiguities, thereby introducing delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia.

Recipients of this Prospectus are advised to read this Prospectus and, in particular, Part I "Summary", Part II "Risk Factors" and Part X "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a further discussion of the factors that could affect the Group's (the Group being defined as: (i) the Bank and its subsidiaries prior to closing of the Offer; and (ii) BGH and its subsidiaries, including the Bank and its subsidiaries following closing of the Offer) future performance and the industries and markets in which it operates. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this Prospectus may or may not occur. Existing Holders should note that the contents of these paragraphs relating to forward-looking statements are not intended to qualify the statements made as to sufficiency of working capital in this Prospectus.

Currency and Exchange Rates

In this Prospectus, all references to "Lari" and "GEL" are to the lawful currency of Georgia; all references to "Dollars," "US Dollars", "US$" and "USD" are to the lawful currency of the United States of America; all references to "Euros", "€" and "EUR" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended; all references to "Pounds Sterling", "£" or "GBP" are to the lawful currency of the United Kingdom; all references to "Hryvnia" and "UAH" are to the lawful currency of Ukraine; all references to "Belarus roubles" or "BYR" are to the lawful currency of the Republic of Belarus; all references to "AZN" are to the lawful currency of the Republic of Azerbaijan; and all references to "INS" are to the lawful currency of Israel.

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

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

	High	Low	Average	Period End
		(Lari per US Dollar)		
2010	1.888	1.693	1.783	1.773
2009	1.695	1.640	1.670	1.686
2008	1.667	1.396	1.490	1.667
2007	1.720	1.592	1.670	1.592
2006	1.830	1.714	1.776	1.714

Source: NBG.

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

	High	Low	Average	Period End
		(Lari per US Dollar)		
December (up to and including 15 December 2011)	1.660	1.656	1.658	1.658
November 2011	1.662	1.655	1.659	1.658
October 2011	1.671	1.654	1.660	1.659
September 2011	1.665	1.647	1.662	1.661
August 2011	1.665	1.642	1.651	1.646
July 2011	1.684	1.646	1.666	1.655
June 2011	1.667	1.642	1.655	1.667
May 2011	1.693	1.641	1.676	1.666
April 2011	1.706	1.639	1.665	1.641
March 2011	1.741	1.698	1.712	1.706
February 2011	1.810	1.749	1.776	1.757
January 2011	1.811	1.774	1.796	1.810

Source: NBG.

The Lari per US Dollar exchange rate as reported by the NBG on 15 December 2011 was GEL 1.658.

PART VII

DIRECTORS, SECRETARY AND ADVISERS

BGH Directors	Neil Janin Irakli Gilauri David Morrison Alasdair (Al) Breach Allan Hirst Kakhaber (Kaha) Kiknavelidze Ian Hague Hanna-Leena (Hanna) Loikkanen

Each Director's business address is BGH's registered address at 84 Brook Street, London, W1K 5EH, United Kingdom.

Company Secretary/Registered Office	KB Rea Ltd 84 Brook Street, London W1K 5EH United Kingdom
Bank Secretary/Registered Office	3 Pushkin Street Tbilisi, 0105 Georgia
Sponsor	ING Bank, N.V., London Branch 60 London Wall London EC2M 5TQ United Kingdom
Legal Adviser to BGH and the Bank as to English and US Law	Baker & McKenzie LLP 100 New Bridge Street London EC4V 6JA United Kingdom
Legal Adviser to BGH and the Bank as to Georgian Law	DLA Piper Georgia LLP Melikishvili Street Tbilisi, 0179 Georgia
Legal Adviser to the Sponsor as to English and US Law	Dewey & LeBoeuf LLP 1 Minster Court Mincing Lane London EC3R 7YL United Kingdom
Independent Auditors of the Bank	Ernst & Young LLC Kote Abkhazi Street, 44 Tbilisi, 0105 Georgia
Exchange Agent	BNY Mellon Shareowner Services 480 Washington Blvd., 29th Floor Jersey City, NJ 07310
Georgian Exchange Agent	Joint Stock Company BG Capital 7 Chavchavadze Ave. 0179 Tbilisi, Georgia
UK Registrar (Registrar to BGH)	Computershare Investor Services PLC The Pavilions Bridgewater Road Bristol BS13 8AE United Kingdom

Georgian Registrar (Registrar to the Bank)	Joint Stock Company Kavkasreestri 74a Chavchavadze Avenue 0162 Tbilisi, Georgia
Solicitation Agent	DF King Worldwide One Ropemaker Street London EC2Y 9AW
Information Agent	DF King Worldwide One Ropemaker Street London EC2Y 9AW
Georgian Information Agent	Joint Stock Company BG Capital 7 Chavchavadze Ave./11 Mosashvili Str. 0179 Tbilisi, Georgia

PART VIII

CAPITALISATION AND INDEBTEDNESS

The following table shows the unaudited financial indebtedness of the Group as of 30 September 2011 and has been extracted without material adjustment from the Group's management accounts. This information should be read in conjunction with Part X "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Audited Financial Statements.

	As of 30 September 2011	
	(unaudited)	
	(thousands of Lari)	*(thousands of US Dollars)*[(1)]
Current Debt		
Guaranteed	—	—
Secured	679	409
Unguaranteed/unsecured	470,539	283,287
Total current debt	**471,218**	**283,696**
Non-Current Debt		
Guaranteed	—	—
Secured	4,704	2,832
Unguaranteed/unsecured	623,800	375,557
Total non-current debt (excluding current portion of long-term debt)	**628,504**	**378,389**
Total indebtedness	**1,099,722**	**662,085**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.661 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 September 2011.

The following table sets forth, as of 30 June 2011, the Group's capitalisation, extracted without material adjustment from the Six Month Audited Financial Statements.

	As of 30 June 2011	
	(audited)	
	(thousands of Lari)	*(thousands of US Dollars)*[(1)]
Equity		
Share capital	31,360	18,812
Additional paid-in capital	478,555	287,076
Treasury shares	(1,428)	(857)
Other reserves	28,063	16,834
Total Capitalisation	**536,550**	**321,865**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

On 28 October 2011, the Bank issued 1.5 million additional Bank Shares for the purposes of the SEECP, raising the Bank's issued share capital to 32,877,547 shares. Save for this change to the Bank's issued share capital, there have been no material changes to the Group's capitalisation since 30 June 2011.

The following table sets forth, as of 30 September 2011, the Group's unaudited net indebtedness in the short term and in the medium-to-long term and has been extracted without material adjustment from the Group's management accounts.

	As of 30 September 2011 (unaudited)	
	(thousands of Lari)	*(thousands of US Dollars)*[(1)]
Cash[(2)]	149,743	90,152
Cash equivalent[(2)]	342,709	206,327
Trading securities	386,766	232,851
Liquidity	**879,218**	**529,330**
Current financial receivable[(3)]	**1,487,221**	**892,154**
Current bank debt	285,612	171,952
Current portion of non-current debt	185,606	111,744
Other current financial debt	—	—
Current financial indebtedness	**471,218**	**283,696**
Net current financial indebtedness	**1,895,221**	**1,137,788**
Non-current bank loans	628,504	378,389
Bonds issued	—	—
Other non-current loans	—	—
Non-current financial indebtedness	**628,504**	**378,389**
Net financial indebtedness	**2,523,725**	**1,516,177**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.661 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 September 2011.

(2) Cash equals cash on hand. Cash equivalents equal other components of cash and cash equivalents that are not cash on hand.

(3) Current financial receivable includes: amounts due form credit institutions, loans to customers (net) with effective maturity of less than one year and finance lease receivables (net) with effective maturity of less than one year.

The Group has no indirect or contingent indebtedness.

Outstanding Indebtedness

As of 31 October 2011 (being the latest practicable date prior to the publication of this Prospectus), the Group had the following outstanding indebtedness under its principal financing arrangements.

	As of 31 October 2011 (unaudited)	
	(thousands of Lari)	*(thousands of US Dollars)*[(1)]
Correspondent accounts	7,236	4,362
Time deposits and inter-bank loans[(2)]	175,348	105,695
Borrowings from international credit institutions[(3)]	801,169	482,923
Total amounts due to credit institutions	**983,753**	**592,980**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.659 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 31 October 2011.

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

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

Bank of Georgia Holdings Plc

BGH was incorporated on 14 October 2011 and will be the new holding company for the Group from Admission. Since incorporation, it has not incurred any indebtedness (except in respect of the costs of preparation for the Offer and Admission) and has no material equity reserves. The issued and fully paid up capital of Bank of Georgia Holdings Plc was £50,001 (being the Subscriber Share and the 50,000 Redeemable Shares) as at the date of this Prospectus. No financial information for BGH has been audited.

PART IX

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated financial information of the Group as of and for the six months ended 30 June 2011 and as of and for the years ended 31 December 2010, 2009 and 2008, which has been extracted without material adjustment from, should be read in conjunction with, and is qualified in its entirety by, the Audited Financial Statements and the notes thereto, as well as the sections entitled "Capitalisation and Indebtedness" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", included elsewhere in this Prospectus.

Consolidated Results of Operations

The following table sets out the principal components of the Group's consolidated net income for the periods indicated.

	For the six months ended 30 June				For the years ended 31 December				
	2011			2010	2010		2009		2008
	(audited)			(unaudited)	(audited)				
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*Change (%)*	*(thousands of Lari)*	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*
Interest income	239,209	143,497	19.3%	200,447	423,141	11.6%	379,058	(6.2)%	403,939
Interest expense	(125,843)	(75,491)	26.4%	(99,598)	(206,797)	9.7%	(188,517)	3.0%	(183,099)
Net interest income	**113,366**	**68,006**	**12.4%**	**100,849**	**216,344**	**13.5%**	**190,541**	**(13.7)%**	**220,840**
Fee and commission income	43,636	26,176	29.7%	33,641	74,265	15.0%	64,599	1.7%	63,503
Fee and commission expense	(9,666)	(5,798)	52.2%	(6,349)	(10,845)	13.3%	(9,574)	(29.3)%	(13,534)
Net fee and commission income	**33,970**	**20,378**	**24.5%**	**27,292**	**63,420**	**15.3%**	**55,025**	**10.1%**	**49,969**
Net insurance revenue	9,096	5,457	8.6%	8,378	16,663	8.4%	15,375	70.5%	9,016
Other operating non-interest income	59,397	35,631	143.9%	24,357	50,206	47.9%	33,950	(40.0)%	56,558
Revenue	**215,829**	**129,472**	**34.2%**	**160,876**	**346,633**	**17.5%**	**294,891**	**(12.3)%**	**336,383**
Other operating non-interest expenses	(105,946)	(63,555)	8.7%	(97,492)	(199,767)	2.4%	(195,012)	(6.0)%	(207,532)
Operating income before cost of credit risk	**109,883**	**65,917**	**73.4%**	**63,384**	**146,866**	**47.0%**	**99,879**	**(22.5)%**	**128,851**
Cost of credit risk	(8,262)	(4,956)	(58.6)%	(19,955)	(47,698)	(63.9)%	(132,172)	2.7%	(128,698)
Net operating income (loss)	**101,621**	**60,961**	**134.0%**	**43,429**	**99,168**	**N/A**	**(32,293)**	**N/A**	**153**
Impairment of goodwill and property and equipment	(13,000)	(7,798)	N/A	—	(435)	(99.4)%	(76,272)	31,159.0%	(244)
Non-operating (expense) income	(5,703)	(3,421)	617.4%	(795)	(290)	N/A	2,659	N/A	(713)
Profit (loss) before income tax (expense) benefit from continuing operations	**82,918**	**49,742**	**94.5%**	**42,634**	**98,443**	**N/A**	**(105,906)**	**13,072.4%**	**(804)**
Income tax (expense) benefit	(6,926)	(4,155)	10.1%	(6,289)	(15,776)	N/A	6,998	615.5%	978
Profit (loss) for the period from continuing operations	**75,992**	**45,587**	**109.1%**	**36,345**	**82,667**	**N/A**	**(98,908)**	**N/A**	**174**
Net loss from discontinued operations	(12,247)	(7,347)	N/A	—	—	N/A	—	N/A	—
Profit (loss) for the period	**63,745**	**38,240**	**75.4%**	**36,345**	**82,667**	**N/A**	**(98,908)**	**N/A**	**174**

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

Consolidated Statement of Financial Position

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

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of US Dollars)*[(1)]	*(audited) (thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Assets					
Cash and cash equivalents	338,408	203,004	611,584	357,889	415,821
Amounts due from credit institutions	308,067	184,803	116,469	64,620	81,403
Loans to customers, net	2,375,110	1,424,781	2,351,697	1,661,331	2,039,022
Finance lease receivables	64,791	38,867	14,419	16,896	41,605
Investment securities:					
- available for sale	404,317	242,542	294,940	19,590	33,737
- held-to-maturity	21	13	21	249,196	22,845
Investments in associates	3,758	2,254	5,632	10,323	16,716
Investment properties	99,353	59,600	113,496	79,509	47,289
Property and equipment	278,429	167,024	285,852	278,729	301,784
Goodwill	56,212	33,720	69,212	65,777	134,238
Other intangible assets	21,741	13,042	22,390	19,665	18,221
Income tax assets:					
- current	7,584	4,549	2,247	7,997	8,095
- deferred	13,390	8,032	18,178	15,487	4,691
Prepayments	27,845	16,704	23,365	18,140	18,319
Other assets	124,298	74,564	75,420	48,280	75,121
Total assets	**4,123,324**	**2,473,499**	**4,004,922**	**2,913,429**	**3,258,907**
Liabilities					
Amounts due to customers	2,228,505	1,336,836	2,026,308	1,273,130	1,193,129
Amounts due to credit institutions	986,592	591,837	1,138,927	928,615	1,216,722
Income tax liabilities:					
- current	130	78	4,251	574	779
- deferred	23,853	14,309	30,901	24,661	23,615
Provisions	8	5	4,407	2,126	4,263
Other liabilities	132,475	79,468	106,787	85,906	101,550
Total liabilities	**3,371,563**	**2,022,533**	**3,311,581**	**2,315,012**	**2,540,058**
Equity					
Share capital	31,360	18,812	31,345	31,306	31,253
Additional paid-in capital	478,555	287,076	477,285	478,779	468,732
Treasury shares	(1,428)	(857)	(1,510)	(1,677)	(2,018)
Other reserves	28,063	16,834	26,816	24,387	26,201
Retained earnings	190,749	114,427	130,314	46,163	141,491
Total equity attributable to shareholders	**727,299**	**436,292**	**664,250**	**578,958**	**665,659**
Non-controlling interest	24,462	14,674	29,091	19,459	53,190
Total equity	**751,761**	**450,966**	**693,341**	**598,417**	**718,849**
Total liabilities and equity	**4,123,324**	**2,473,499**	**4,004,922**	**2,913,429**	**3,258,907**

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

Selected Financial Ratios

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

	As of and for the six months ended 30 June		As of and for the years ended 31 December		
	2011	2010	2010	2009	2008
		(unaudited)			
Profitability ratios:					
ROAA[1]	3.77%	2.31%	2.39%	(3.20)%	0.01%
ROAE[2]	22.00%	12.07%	13.46%	(14.68)%	0.64%
Interest expense to interest income	52.6%	49.7%	48.9%	49.7%	45.3%
Interest income to average interest earning assets	15.6%	17.1%	16.5%	16.9%	17.3%
Cost of funds[3]	8.0%	8.3%	7.7%	8.2%	7.8%
Net spread[4]	7.6%	8.8%	8.8%	8.7%	9.5%
Net interest margin[5]	7.4%	8.6%	8.4%	8.5%	9.5%
Currency-blended loan yield[6]	17.0%	18.8%	17.9%	18.2%	18.9%
Currency-blended deposit yield[7]	7.2%	8.0%	7.0%	7.9%	6.7%
Net fee and commission income to revenue[8]	15.7%	17.0%	18.3%	18.7%	14.9%
Net non-interest income to revenue[9]	47.5%	37.3%	37.6%	35.4%	34.3%
Efficiency ratios:					
Cost to income ratio[10]	49.1%	60.6%	57.6%	66.1%	61.7%
Other operating non-interest expense to average total assets	5.3%	6.2%	5.8%	6.3%	6.7%
Salaries and other employee benefits to total operating income[11]	26.7%	32.8%	30.2%	34.1%	32.3%
Salaries and other employee benefits to other operating non-interest expense[11]	54.5%	54.1%	52.3%	51.5%	52.4%
Liquidity ratios (at period end):					
Net loans to total assets	57.6%	57.5%	58.7%	57.0%	62.6%
Net loans to amounts due to customers	106.6%	132.0%	116.1%	130.5%	170.9%
Net loans to total deposits[12]	98.9%	115.6%	108.8%	129.0%	156.6%
Net loans to total liabilities	70.4%	70.9%	71.0%	71.8%	80.3%
Interest earnings assets[5] to total assets	77.7%	76.1%	74.9%	72.9%	72.4%
Liquid assets to total assets[13]	25.5%	24.3%	25.5%	23.7%	17.0%
Total deposits to total assets[12]	58.2%	49.7%	54.0%	44.2%	39.9%
Amounts due to customers to total deposits	92.8%	87.6%	93.8%	98.8%	91.6%
Amounts due to customers to total equity (times)	3.0	2.3	2.9	2.1	1.7
Amounts due from credit institutions to amounts due to credit institutions, except for borrowings from international credit institutions	177.8%	36.9%	86.3%	429.8%	74.9%
Total equity to net loans	31.7%	33.0%	29.5%	36.0%	35.3%
Leverage, (times)[14]	4.5	4.3	4.8	3.9	3.5
Asset quality:					
Allowance at period end for loan impairment to gross loans[15]	4.9%	8.9%	6.9%	9.1%	5.0%
Impairment of interest earning assets for the period to average interest earning assets (cost of risk)	0.7%	2.0%	1.7%	5.6%	5.3%
Impairment charge on loans to customers to gross loans to customers	0.5%	1.2%	2.3%	6.0%	6.4%
Capital adequacy (at period end):					
Consolidated capital adequacy ratio[16]	18.1%	20.3%	17.5%	22.4%	21.6%
Consolidated Total capital adequacy ratio[16] [17]	26.7%	32.7%	26.6%	34.7%	26.3%
Standalone Tier I capital adequacy ratio[18]	19.6%	28.0%	23.3%	31.8%	25.5%
Standalone Total capital adequacy ratio[18] [19]	28.1%	35.4%	28.4%	34.4%	24.8%

Notes:

(1) Return on average total assets: profit (loss) for the period from continuing operations divided by average totals assets of the period.

(2) Return on average total equity: profit (loss) for the period from continuing operations attributable to Bank Shareholders divided by average total equity of the period attributable to Bank Shareholders.

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

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

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

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

(7) The currency-blended customer deposit yield equals total interest expense from amounts due to customers for the period divided by the average total amounts due to customers for the same period.

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

(9) Net non-interest income is the sum of net fee and commission income, net insurance revenue and other operating non-interest income.

(10) Cost to income ratio equals other operating non-interest expense divided by revenue of the period.

(11) Salaries and other employee benefits amounted to GEL 108.8 million, GEL 100.5 million and GEL 104.6 million, for the years ended 31 December 2008, 2009 and 2010, respectively, and GEL 52.8 million and GEL 57.7 million for the six months ended 30 June 2010 and 2011, respectively.

(12) Total deposits include amounts due to customers and amounts due to credit institutions except for the borrowings from credit institutions.

(13) Liquid assets include cash and cash equivalents, amounts due from credit institutions and investment securities. Liquid assets amounted to GEL 553.8 million, GEL 691.3 million, GEL 1,023.0 million and GEL 1,050.8 million, as of 31 December 2008, 2009 and 2010 and as of 30 June 2011, respectively.

(14) Total liabilities divided by total equity.

(15) Allowance for loan impairment amounted to GEL 106.6 million, GEL 166.5 million, GEL 175.5 million and GEL 121.7 million as of 31 December 2008, 2009 and 2010 and as of 30 June 2011, respectively.

(16) The consolidated Tier I capital adequacy ratio calculated in accordance with Basel I. The consolidated Tier I capital adequacy ratio of the Group equals the consolidated Tier I capital divided by the consolidated risk weighted assets. The consolidated Tier I capital amounted to GEL 637.8 million, GEL 548.7 million, GEL 638.0 million and GEL 700.8 million as of 31 December 2008, 2009 and 2010 and as of 30 June 2011, respectively. The consolidated risk weighted assets amounted to GEL 2,950.7 million, GEL 2,454.8 million, GEL 3,653.2 million and GEL 3,872.3 million as of 31 December 2008, 2009 and 2010 and as of 30 June 2011, respectively.

(17) The consolidated total capital adequacy ratio calculated in accordance with Basel I. The consolidated total capital adequacy ratio of the Group equals total consolidated regulatory capital (Tier I + Tier II — deductions) divided by consolidated risk weighted assets. The consolidated regulatory capital (Tier I + Tier II — deductions) amounted to GEL 776.8 million, GEL 850.7 million, GEL 972.0 million and GEL 1,033.1 million as of 31 December 2008, 2009 and 2010 and as of 30 June 2011, respectively.

(18) The standalone Tier I capital adequacy ratio calculated in accordance with Basel I. The standalone Tier I capital adequacy ratio of Bank of Georgia equals the standalone Tier I capital divided by the standalone risk weighted assets. The standalone Tier I capital amounted to GEL 651.8 million, GEL 692.5 million, GEL 785.3 million and GEL 741.4 million as of 31 December 2008, 2009 and 2010 and as of 30 June 2011, respectively. The standalone risk weighted assets amounted to GEL 2,560.7 million, GEL 2,179.5 million, GEL 3,376.0 million and GEL 3,773.3 million as of 31 December 2008, 2009 and 2010 and as of 30 June 2011, respectively.

(19) The standalone total capital adequacy ratio calculated in accordance with Basel I. The standalone total capital adequacy ratio of Bank of Georgia equals the total standalone regulatory capital (Tier I + Tier II — deductions) divided by the standalone risk weighted assets. The standalone regulatory capital (Tier I + Tier II — deductions) amounted to GEL 635.3 million, GEL 750.3 million, GEL 959.4 million and GEL 1,059.8 million as of 31 December 2008, 2009 and 2010 and as of 30 June 201, respectively.

PART X

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

The following discussion and analysis of the consolidated financial condition and results of operations of the Group principally covers the six months ended 30 June 2011 and the years ended 31 December 2010, 2009 and 2008. Unless otherwise specified, the financial information for the periods presented in this discussion has been extracted and/or derived from the Audited Financial Statements. This section should be read in conjunction with the Audited Financial Statements and the notes thereto and the other financial information included elsewhere in the Prospectus.

Certain information contained in the discussion and analysis set forth below and elsewhere in this Prospectus includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See Part II "Risk Factors" and Part VI "Presentation of Information — Forward-Looking Statements". Unless otherwise noted, all information relating to the Bank's market ranking and market share is based on information published by the NBG on 30 June 2011 based on standalone financial information filed with the NBG by Georgian banks.

Overview

The Group's strategic businesses are retail and corporate banking provided through Bank of Georgia, a universal bank, as well as wealth management. Bank of Georgia is the leading bank in Georgia based on total assets (with a 36.1% market share), total gross loans (with a 36.0% market share) and total customer deposits (with a 34.6% market share). The following tables set forth selected consolidated figures relating to the Group for the periods specified:

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
			(audited)		
	(thousands of Lari)	*(thousands of US$)*[(1)]		*(thousands of Lari)*	
Total assets	4,123,324	2,473,499	4,004,922	2,913,429	3,258,907
Loans to customers, net	2,375,110	1,424,781	2,351,697	1,661,331	2,039,022
Amounts due to customers	2,228,505	1,336,836	2,026,308	1,273,130	1,193,129
Total equity	751,761	450,966	693,341	598,417	718,849

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

	For the six months ended 30 June			For the years ended 31 December		
	2011		2010	2010	2009	2008
	(audited)		*(unaudited)*		*(audited)*	
	(thousands of Lari)	*(thousands of US$)*[(1)]			*(thousands of Lari)*	
Profit (loss) for the period	63,745	38,240	36,345	82,667	(98,908)	174

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

As of 30 June 2011, Bank of Georgia had one of the largest distribution networks in Georgia, with 143 branches, including full-service flagship branches, service centres and smaller-scale sales outlets, the largest ATM network in Georgia, comprising 408 ATMs, 86 self service terminals, a full-service remote banking platform and a modern call centre. As of the same date, the Bank served 862,369 retail banking clients (of which more than 90,000 are legal entities and more than 770,000 are individuals) and 9,504 corporate banking clients. The banking businesses generated 93.6% of the Group's total revenue in the six months ended 30 June 2011.

Bank of Georgia Group

Strategic businesses:	Synergistic businesses:	Non-core businesses:
• Retail banking • Corporate banking • Wealth management	• Insurance and Healthcare • Affordable housing • Domestic brokerage	• Belarus banking operations • Other investments

In addition to its strategic businesses, the Group also provides insurance and healthcare, affordable housing and brokerage services throughout Georgia that enable the Bank to leverage its client base, distribution networks and sales force.

Through its wholly-owned subsidiary, SBRE, the Group holds a land bank consisting of land previously repossessed from the Bank's borrowers, which it plans to develop as affordable housing, including the development and sale or leasing of up to 2,000 flats within the next three to four years, primarily in Tbilisi to support its strategic retail mortgage lending business. The Group also provides brokerage and investment banking services in Georgia, through its subsidiary BG Capital.

Through its wholly-owned insurance subsidiary, ABCI, the Group is one of the leading providers of life and non-life insurance products in Georgia, based on a market share of 19.5% of the life and 16.8% of the non-life insurance markets, as of 30 June 2011 (based on gross written premiums).

The Group's non-core businesses comprise BNB and Liberty Consumer, which were created as part of the Group's previous strategy. Through BNB, the Bank's subsidiary, the Group provides retail banking and corporate banking services in Belarus. Most of the Group's other investments are held through Liberty Consumer, a Georgia-focused investment company in which the Bank holds a 65% stake.

Factors Affecting Results of Operations

Key factors affecting the Group's results of operations are discussed below.

Macroeconomic Conditions

The Group operates primarily in Georgia. Georgian operations accounted for 85.0%, 90.7%, 87.5% and 89.1% of the Group's total consolidated income for the six months ended 30 June 2011 and for the years ended 31 December 2010, 2009 and 2008, respectively. Accordingly, its results of operations and financial condition are and will continue to be significantly affected by Georgian political and economic factors, including the economic growth rate, the rate of inflation, fluctuations in exchange rates and interest rates and FDI.

Economic activity was strong in Georgia throughout the first half of 2008 with 8.8% real GDP growth, according to Geostat. However, as a result of the 2008 Conflict and the severe downturn in the global economy, economic activity in Georgia slowed in the second half of 2008 and in 2009. Georgian unemployment rose to 16.5% in 2008 and to 16.9% in 2009, trade volumes declined between 2008 and 2009, FDI declined by 57.9% in 2009, compared to 2008 (FDI being US$658.4 million in 2009 compared to US$1,564.0 million in 2008), inflation decreased to 3% in 2009 and real GDP declined by 3.8% in 2009, according to Geostat. These developments affected the Group's results of operations. In particular, in 2008 and 2009, the Group's loan portfolio and the rate of growth of its customer deposits decreased, the quality of the loan portfolio deteriorated and IFIs became the principal sources of wholesale funding for the Group. These factors contributed to the Group reporting net income of GEL 0.2 million in 2008 and a net loss of GEL 98.9 million in 2009, largely in connection with its operations in Ukraine.

The Group has benefitted from the recovery in the Georgian economy, which began in the second half of 2009 and which continued in 2010 and 2011. According to Geostat, Georgia experienced real GDP growth of 6.3% in 2010 and 5.5% in the first six months of 2011. The IMF estimates that nominal GDP will grow by a compound annual growth rate (**"CAGR"**) of 12.2% from 2010 through to 2013. Georgia's current account deficit was US$1,117.0 million for the year ended 31 December 2010 and its public debt as a percentage of GDP was 46.3% as of 31 December 2010, according to the government of Georgia. According to Geostat, inflation in Georgia increased to 11.2% for the year ended 31 December 2010, decreasing to 2.3% (estimated) for the year ended 31 October 2011. The increase in annual inflation in 2010 was mostly due to exogenous factors, such as food price increases. FDI increased to US$814.5 million in 2010 from US$658.4 million in 2009. In addition, over the same period Georgia experienced an increase in donor funding, representing long-term loans on concessionary terms and grants pledged by the international community to Georgia following the 2008 Conflict in the amount of US$.4.5 billion and an increase in tourist inflows. As of 31 July 2011, approximately US$2.1 billion of donor funding had been disbursed and by 30 June 2011, Georgia had entered into firm commitments with respect to most of the remaining amounts pledged. According to the Georgian National Tourist Agency, in 2010 tourists spent an estimated US$3.3 billion on direct expenditures in Georgia, compared to US$846 million in 2008, while the number of tourists that entered the country increased from 1,290,107 tourists in 2008 to 2,032,586 tourists in 2010. In the first half of 2011, the number of tourists that entered Georgia exceeded the number of tourists in the same period in 2010 by 45%, according to the MIA Border Police of Georgia. The Group reported revenues of GEL 215.8 million (US$129.5 million) in the six months ended 30 June 2011 and GEL 346.6 million in 2010.

Currency Fluctuations

Although the Group seeks to minimise the effect of currency fluctuations, including through hedging, such fluctuations may affect the Group's results. For instance, in the six months ended 30 June 2011, the Group recognised a GEL 20.1 million net foreign currency gain in its income statement due to the devaluation of the Belarusian Rouble against the Lari. The devaluation had the effect of reducing the value of the shareholders' equity of the Bank's Belarusian subsidiary, which was almost entirely offset by a recognised gain under the swap agreement relating to the Bank's equity position in Belarus.

Cost of Credit Risk

The Group had high loan impairment charges in 2008 of GEL 122.8 million and GEL 118.9 million in 2009 due to the impact of the 2008 Conflict, the subsequent weakening of the economic environment and its impact on the Group's clients, including their ability to service their loans. In 2010 the Group's allowance for loan impairment losses continued to increase (although at a slower rate) primarily reflecting the growth of the loan portfolio. As of 30 June 2011, the Group's allowances for loan impairments were GEL 121.7 million, reflecting the effect of the Group disposing of an 80.0% equity interest in BG Bank in February 2011, as BG Bank had significant allowances for loan impairments. Loan impairment charges decreased to GEL 49.9 million in 2010 and to GEL 11.3 million in the six months ended 30 June 2011 as a result of improved economic circumstances from the second half of 2009 onwards.

Changes in Customer Deposits

Customer deposits are the Group's largest source of funding, accounting for 66.1% of total liabilities as of 30 June 2011, compared to 61.2%, 55.0% and 47.0% as of 31 December 2010, 2009 and 2008, respectively. The increase of customer deposits in Georgia in 2009, 2010 and in the six months ended 30 June 2011 was primarily the result of increased consumer confidence following a period of relative political stability after the 2008 Conflict and, from 2010, the recovery from the global financial crisis. In general, increases in the volume of customer deposits increase the Group's interest expense while decreases in the volume of customer deposits decreases the Group's interest expense, although, from time to time, in order to attract additional deposits and/or to match or exceed competitors' interest rates, the Group increases its interest rates on deposits, which also affects the Group's total interest expense. On 3 August 2011, the Bank announced that it had decreased interest rates on both foreign currency and Lari term deposits (including retail, wealth management and corporate deposits), in line with trends across the Georgian economy. Interest rates on the Bank's foreign currency retail and corporate banking customer deposits with different maturities have been reduced by 1.0 — 1.5%.

Changes in the Loan Portfolio

Increases or decreases in the Group's loan portfolio impact the Group's interest income. In addition, the proportion of loans to the Group's total interest earning assets also impacts interest income as non-loan interest-earning assets (which are primarily short term cash and cash equivalents or amounts due from credit institutions or investment securities) generally have lower yields. Loans accounted for 74.1% of interest-earning assets as of 30 June 2011, compared to 78.4%, 78.3% and 86.4% as of 31 December 2010, 2009 and 2008, respectively. Although the value of the Group's total gross loans increased during 2010 and 2011, loans as a proportion of interest earning assets decreased, principally due to the Group investing in Ministry of Finance treasury securities (which were unavailable between June 2005 and August 2009) and NBG certificates of deposit (which were subject to certain size restrictions prior to 22 January 2010).

Total gross loans declined during the second half of 2008 and 2009, principally due to the impact of the 2008 Conflict and the economic showdown in 2009 which led to a reduction in the Group's corporate and retail lending (in part, as a result of the Group tightening its lending policies). The value of the Group's total gross loans increased during 2010 and 2011, principally due to an increase in lending in 2010 and 2011 as a result of the Georgian economy recovering from the impact of the 2008 Conflict and the global economic downturn in the second half of 2009. Corporate lending was more significantly affected by the 2008 Conflict and the economic downturn than retail lending, and it experienced higher growth in the recovery. In the first half of 2011 higher yielding micro and consumer lending has grown faster than mortgage lending.

In response to high consumer price inflation in the second part of 2010 and the beginning of 2011, the NBG tightened Georgian monetary policy by increasing the refinancing rate and tripling the reserve requirements on foreign currency customer deposits and non-subordinated borrowings. Despite this, the net loan book of the Group (excluding BG Bank) grew by 7.6% in the first six months of 2011. Since then, inflation has declined to an estimated 2.3% (in October 2011), the NBG abolished reserve requirements on foreign currency borrowing with over two years to maturity (in September 2011) and, between June 2011 and 22 November 2011, the NBG has reduced its refinancing rate by 100 basis points to 7.00. See Part XVI "Risk Management — Liquidity Risk".

Cost Management

In order to mitigate the negative impact of the global recession, the Group implemented a number of cost management measures during the second half of 2008 and in 2009. To a large extent, these cost management measures comprised the disposal, or reduction in size, of the Group's non-core businesses and business processes and reduction in associated costs. Cost management measures included decreasing the number of the Group's employees (a total of 1,079 employees were made redundant by the Group in December 2008, 997 of whom had been employed by the Bank and 830 of whom were employed full-time on standard contracts), decreasing the number of the Group's service centres in Georgia (ten service centres were closed in Georgia between 2008 and 2009), implementing a conservative liquidity and credit management policy in 2008 and 2009 which involved, among other things, reducing the levels of the Group's lending and, in 2009, reducing the sale of the Group's point-of-sale consumer lending products to a negligible level. As a result of these cost management measures, between 2008 and 2009 the Group managed to decrease its salaries and other employee benefits expenses by 7.6% and its general and administrative expenses by 16.5%.

In the second half of 2009, the Georgian economy started to recover from the impact of the 2008 Conflict and the global economic downturn and, as a result, in 2010 the Group shifted its emphasis away from cost management (except in relation to its Ukrainian operations) towards managed, cautious growth, cost optimisation and operational efficiency improvements, focusing in particular on increased investments in technology and improving business processes. In line with this new strategy, the Group started to hire new employees in Georgia, customer deposits increased, and the Group's revenues and results of operations improved. In particular, the Group's (including BG Bank's results) cost to income ratio decreased from 66.1% in 2009 to 57.6% in 2010 and the Group's other operating non-interest expense per average total assets improved from 6.3% in 2009 to 5.8% in 2010. The higher cost to income ratio in 2009 was due to the Group's decreased revenue as a result of the post-2008 Conflict economic slowdown in 2009.

Cost of Funding

The Group's principal sources of funding are amounts due to customers, amounts due to credit institutions (including current accounts and term deposits and inter-bank loans from the inter-bank market, which are used by the Group to manage its short-term liquidity needs, as well as borrowings from international credit institutions as a source of long-term funding) and equity funding. During the economic downturn, the costs of borrowing in the wholesale debt markets increased, the debt capital markets were effectively closed to banks in emerging markets and IFIs became the principal sources of long-term funding for the Group. Deposit funding grew significantly in 2010 and the first half of 2011, thus reducing the Group's dependence on the IFIs and wholesale funding. At the same time, the cost of customer deposits (i.e., the total average interest expense on customer deposits) increased from 7.0% in 2010 to 7.2% in the first six months of 2011. In 2010, the Group continued to borrow from IFI's, signing agreements totalling US$150 million and with terms between five and seven years.

Business Combinations and Goodwill

The value of goodwill and any impairment charges associated with goodwill can have a significant impact on the Group's results of operations. In 2009, the Group's financial results were significantly affected by a write-down of goodwill 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 the Belarusian rouble depreciating against the Lari, the Group impaired the goodwill associated with BNB by GEL 13.0 million in the first six months of 2011. As of 30 June 2011 the Group's remaining carrying amount of goodwill was GEL 56.2 million (US$33.7 million). See "— Consolidated Results of Operations — Six months ended 30 June 2011 and 2010 — Impairment charge on goodwill".

Overview of Acquisitions and Disposals

Acquisitions

The Group's significant acquisitions for the period from 1 January 2008 to 30 June 2011 are described below.

In May 2008, ABCI acquired a 55% equity interest in Joint Stock Company Kutaisi St. Nicholas Surgery Clinic (a medical clinic and hospital services provider operating in the western part of Georgia) for a total consideration of GEL1.3 million (US$0.9 million). The fair value of identifiable assets of Joint Stock Company Kutaisi St. Nicholas Surgery Clinic as of the date of acquisition was estimated at GEL 3,032,000 while liabilities were estimated at GEL 1,248,000. The goodwill on the acquisition amounted to GEL 288,000. The results of Joint Stock Company Kutaisi St. Nicholas Surgery Clinic have been consolidated in the Group's audited consolidated financial statements since May 2008.

In July 2008, the Group acquired (indirectly through a Belarus legal entity) a 70% equity interest in BNB, a Belarus commercial bank, for a total consideration of GEL 49.6 million and retained an option to acquire the remaining 30% equity interest in BNB within three years. The acquisition of BNB resulted in the acquisition of goodwill in the amount of GEL 23.4 million. The results of BNB have been consolidated in the Group's audited consolidated financial statements since July 2008.

Subsequently, in December 2009, the Group completed the acquisition of a non-controlling stake in BNB for consideration in the amount of US$8.2 million, increasing the Group's equity interest in BNB from 70% to 99.96%. In addition, BNB's share capital increased by the equivalent of €10.4 million in December 2009 as a result of a closed share subscription approved by an extraordinary meeting of shareholders of BNB. As a result, the Group's equity interest in BNB increased from 99.96% to 99.98%.

Disposals

The Group's significant disposals for the period from 1 January 2008 to 30 June 2011 are described below.

In July 2010, the Bank sold 19.99% of its equity interest in BNB to the IFC for a total consideration of BYR 24.694 billion (US$8.2 million), or BYR 44.6 (US$0.0148) per share. The Bank also granted IFC a put option to sell its newly acquired 19.99% equity interest in BNB back to the Bank at a price equal to the higher of: (i) the then current fair market value of the shares and (ii) the lower of (1) BYR 24.694 billion (US$8.2 million) and (2) double the book value of the shares. The put option is exercisable from 15 January 2015 until 1 January 2017.

In February 2011, the Group disposed of an 80.0% equity interest in BG Bank, its banking subsidiary in Ukraine, to a number of Ukrainian individuals. For further, see Part X "Management's Discussion and Analysis of Financial Condition and Results of Operations — Six Months Ended 30 June 2011 and 2010 — Net Losses from Discontinued Operations".

In order for the Group to focus on its strategic businesses, the Bank's subsidiary, BG Capital, is in the process of exiting from its brokerage operations in Ukraine and Belarus. In addition, the Group intends to exit from its other non-core operations, including Liberty Consumer and the remaining equity interest in BG Bank and, in due course, its interest in BNB.

Recent Developments

On 18 July 2011, the Bank paid a dividend comprising GEL 0.3 per share. The dividend was approved by the Annual General Meeting of Shareholders held on 15 June 2011. The total amount paid by way of dividend was GEL 9.4 million. On 24 October, ABCI obtained US$11.9 million debt financing from ING Bank. For further, see Part XIII "Description of Business — Synergistic Businesses — Insurance and Healthcare — Healthcare". On 28 October 2011, the Bank issued 1.5 million additional Bank Shares for the purposes of the SEECP, raising the Bank's issued share capital to 32,877,547 shares. On 15 November 2011, the Bank opened its new head office at 29a Gagarin Street, Tbilisi, 0160, Georgia. On 17 November 2011, the Bank obtained a five-year GEL24.1 million (US$14.5 million) debt facility financing from the EBRD for the purpose of financing loans to the agricultural sector. In November 2011, the Bank began proceedings to voluntarily wind-up BG Capital, Ukraine and BG Capital, Belarus. On 14 December 2011, ABCI announced that it had acquired the assets and liabilities of JSC Insurance Company Partner (**"Partner"**), the twelfth largest insurance company in Georgia as of 30 June 2011. On 16 December 2011, SBRE signed a US$20.0 million five-year loan agreement with FMO for the development of an affordable housing project in Tbilisi with a gross buildable area of approximately 63,000 square metres.

Segment Information

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

Strategic

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

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

- *Wealth Management*: Principally providing private banking services to resident and non-resident wealthy individuals as well as their direct family members by ensuring an individual approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or while holding their savings and term deposits; wealth management involves providing wealth and asset management services to the same individuals through different investment opportunities and specifically designed investment products.

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

Synergistic

- *Insurance & Healthcare*: Life and non-life insurance as well as integrated healthcare services to corporate clients and insured individuals.

- *Affordable Housing*: Holding investment properties repossessed by the Bank from defaulted borrowers, managing such properties, developing and selling affordable residential apartments in conjunction with the provision of retail mortgages for the purchase of such apartments.

- *BG Capital*: Brokerage, custody and corporate finance services, mostly for wealthy or mass affluent individuals, as well as to corporate customers.

Non-Core

- *BG Bank & BNB*: BNB and BG Bank (in February 2011, the Group disposed of an 80.0% equity interest in BG Bank, its banking subsidiary in Ukraine, and the Group's equity interest in BG Bank was 19.35% as of 30 June 2011), principally providing retail and corporate banking services in Belarus and Ukraine.

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

- *Other*: Joint Stock Company Galt & Taggart Holding Georgia, a shell company, principally holding investments in subsidiaries of the Bank on behalf of the Bank.

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

The Group operates in three main geographical markets: Georgia; Ukraine and Cyprus; and Belarus. For the six months ended 30 June 2011, Georgia generated 85.0% of the Group's total income, while Belarus generated 13.9% and Ukraine and Cyprus generated 1.1%. The proportion of revenue attributable to Belarus for the period ended 30 June 2011 was higher than anticipated as a result of a one-off foreign currency gain related to the devaluation of the Belarusian Rouble in the period.

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

	For the six months ended 30 June			For the year ended 31 December		
	2011		2010	2010	2009	2008
	(audited)		*(unaudited)*		*(audited)*	
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Strategic businesses:						
Retail banking[2]	98,574	59,133	73,548	169,441	162,543	190,820
Corporate banking [2]	69,658	41,786	58,909	123,101	95,751	96,592
Wealth management	3,242	1,945	2,030	4,141	3,737	5,074
Corporate centre	—	—	—	—	—	—
Total strategic	**171,474**	**102,864**	**134,487**	**296,683**	**262,031**	**292,486**
Synergistic businesses:						
Insurance & healthcare	13,387	8,031	10,549	20,898	19,324	6,424
Affordable housing	978	587	(118)	943	(14,684)	614
Brokerage	1,938	1,163	2,630	4,264	7,152	3,238
Total synergistic	**16,303**	**9,781**	**13,061**	**26,105**	**11,792**	**10,276**
Non-core businesses:						
Non-core: BG Bank & BNB	30,548	18,325	13,319	27,185	29,160	36,087
Non-core: Liberty Consumer	3,100	1,860	3,709	7,487	(405)	2,620
Non-core: Other	(90)	(54)	832	154	(403)	—
Total non-core	**33,558**	**20,131**	**17,860**	**34,826**	**28,352**	**38,707**
Intercompany elimination	**(5,506)**	**(3,304)**	**(4,532)**	**(10,981)**	**(7,284)**	**(5,086)**
Total	**215,829**	**129,472**	**160,876**	**346,633**	**294,891**	**336,383**

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

(2) SME results were included in corporate for 2008 and 2009 and included in retail for 2010 and for the six months ended 30 June 2010 and 2011.

Consolidated Results of Operations

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

	For the six months ended 30 June				For the year ended 31 December				
	2011			2010	2010		2009		2008
		(audited)		*(unaudited)*			*(audited)*		
	(thousands of Lari)	*(thousands of US Dollars)*[(1)]	*Change (%)*	*(thousands of Lari)*	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*	*Change (%)*	*(thousands of Lari)*
Interest income	239,209	143,497	19.3%	200,447	423,141	11.6%	379,058	(6.2)%	403,939
Interest expense	(125,843)	(75,491)	26.4%	(99,598)	(206,797)	9.7%	(188,517)	3.0%	(183,099)
Net interest income	**113,366**	**68,006**	**12.4%**	**100,849**	**216,344**	**13.5%**	**190,541**	**(13.7)%**	**220,840**
Fee and commission income	43,636	26,176	29.7%	33,641	74,265	15.0%	64,599	1.7%	63,503
Fee and commission expense	(9,666)	(5,798)	52.2%	(6,349)	(10,845)	13.3%	(9,574)	(29.3)%	(13,534)
Net fee and commission income	**33,970**	**20,378**	**24.5%**	**27,292**	**63,420**	**15.3%**	**55,025**	**10.1%**	**49,969**
Net insurance revenue	9,096	5,457	8.6%	8,378	16,663	8.4%	15,375	70.5%	9,016
Other operating non-interest income	59,397	35,631	143.9%	24,357	50,206	47.9%	33,950	(40.0)%	56,558
Revenue	**215,829**	**129,472**	**34.2%**	**160,876**	**346,633**	**17.5%**	**294,891**	**(12.3)%**	**336,383**
Other operating non-interest expenses	(105,946)	(63,555)	8.7%	(97,492)	(199,767)	2.4%	(195,012)	(6.0)%	(207,532)
Operating income before cost of credit risk	**109,883**	**65,917**	**73.4%**	**63,384**	**146,866**	**47.0%**	**99,879**	**(22.5)%**	**128,851**
Cost of credit risk	(8,262)	(4,956)	(58.6)%	(19,955)	(47,698)	(63.9)%	(132,172)	2.7%	(128,698)
Net operating income (loss)	**101,621**	**60,961**	**134.0%**	**43,429**	**99,168**	**N/A**	**(32,293)**	**N/A**	**153**
Impairment of goodwill and property and equipment	(13,000)	(7,798)	N/A	—	(435)	(99.4)%	(76,272)	31,159.0%	(244)
Non-operating (expense) income	(5,703)	(3,421)	617.4%	(795)	(290)	N/A	2,659	N/A	(713)
Profit (loss) before income tax (expense) benefit from continuing operations	**82,918**	**49,742**	**94.5%**	**42,634**	**98,443**	**N/A**	**(105,906)**	**13,072.4%**	**(804)**
Income tax (expense) benefit	(6,926)	(4,155)	10.1%	(6,289)	(15,776)	N/A	6,998	615.5%	978
Profit (loss) for the period from continuing operations	**75,992**	**45,587**	**109.1%**	**36,345**	**82,667**	**N/A**	**(98,908)**	**N/A**	**174**
Net loss from discontinued operations	(12,247)	(7,347)	N/A	—	—	N/A	—	N/A	—
Profit (loss) for the period	**63,745**	**38,240**	**75.4%**	**36,345**	**82,667**	**N/A**	**(98,908)**	**N/A**	**174**

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

Six Months Ended 30 June 2011 and 2010

Interest Income

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

The following table sets out the principal components of the Group's interest income for the periods indicated.

	For the six months ended 30 June		
	2011		2010
	(audited)		*(unaudited)*
	(thousands of Lari)	*(thousands of US Dollars)*[(1)]	*(thousands of Lari)*
Interest income attributable to:			
Loans to customers	211,466	126,855	185,968
Finance lease receivables	1,722	1,033	2,136
Amounts due from credit institutions	7,669	4,600	4,894
Investment securities:			
- held-to-maturity	—	—	6,999
- available-for-sale	18,352	11,009	450
Total interest income	**239,209**	**143,497**	**200,447**

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

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

	As of 30 June		As of 31 December
	2011		2010
	(audited)		*(audited)*
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(thousands of Lari)*
Interest-earning assets			
Cash and cash equivalents[2]	65,245	39,139	229,587
Amounts due from credit institutions[3]	308,067	184,803	116,469
Loans to customers, net	2,375,110	1,424,781	2,351,697
Finance lease receivables	64,791	38,867	14,419
Investment securities:			
- held-to-maturity	21	13	21
- available-for-sale	392,051	235,184	285,628
Total interest-earning assets	**3,205,285**	**1,922,787**	**2,997,821**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

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

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

The Group's interest income increased by GEL 38.8 million (US$ 23.3 million), or 19.3%, to GEL 239.2 million (US$143.5 million) for the six months ended 30 June 2011 from GEL 200.4 million for the six months ended 30 June 2010. The increase in interest income was primarily attributable to a GEL 25.5 million (US$15.3 million), or 13.7%, increase in interest income on gross loans to customers, from GEL 186.0 million in the six months ended 30 June 2010 to GEL 211.5 million (US$126.9 million) in the six months ended 30 June 2011 resulting from an increase in the amount of the Group's net loans to customers. The increase in the Group's net loans was partially offset by a decrease in interest rates on the Group's foreign currency loans (substantially all of which were denominated in US Dollars). The effective average interest rate on the Bank's gross loans to customers as of 31 December 2010 and as of 30 June 2011 was 24.1% and 24.9% for Lari-denominated loans and 17.5% and 15.0% for foreign currency denominated loans, respectively. The currency-blended loan yields of the Group were 18.8% and 17.0%, for the six months ended 30 June 2010 and 2011, respectively.

In addition, interest income on the Group's interest-earning investment securities portfolio increased by GEL 10.9 million (US$ 6.5 million), or 146.4%, to GEL 18.4 million (US$11.0 million) for the six months ended 30 June 2011 from GEL 7.4 million for the six months ended 30 June 2010. The increase was attributable to an increase in the size of the Group's portfolio of investment securities, as well as an increase in interest rates on NBG certificates of deposit and treasury bills and government bonds issued by the Ministry of Finance of Georgia. Interest earned on amounts due from credit institutions increased to GEL 7.7 million (US$4.6 million) for the six months ended 30 June 2011 from GEL 4.9 million for the six months ended 30 June 2010. The increase was attributable to an increase in the amounts deposited by the Group with other banks.

Bank of Georgia's Ukrainian subsidiary, BG Bank, contributed interest income of GEL 15.3 million in the six months ended 30 June 2010, and GEL 2.5 million (US$1.5 million) in the first half of 2011 reflecting two months of consolidated results. In February 2011, the Group disposed of an 80.0% equity interest in BG Bank and the Group's equity interest in BG Bank was 19.35% as of 30 June 2011.

Interest Expense

Interest expense comprises interest expense on amounts due to customers and interest expense on amounts due to credit institutions. The following table sets out the components of the Group's interest expense for the periods indicated:

	For the six months ended 30 June		
	2011		2010
	(audited)		(unaudited)
	(thousands of Lari)	(thousands of US Dollars)(1)	(thousands of Lari)
Interest expense attributable to:			
Amounts due to customers	(75,628)	(45,368)	(54,737)
Amounts due to credit institutions	(50,215)	(30,123)	(44,861)
Total interest expense	**(125,843)**	**(75,491)**	**(99,598)**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

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

	As of 30 June		As of 31 December
	2011		2010
	(audited)		(audited)
	(thousands of Lari)	(thousands of US Dollars)(1)	(thousands of Lari)
Interest-bearing liabilities			
Amounts due to customers	2,228,505	1,336,836	2,026,308
Amounts due to credit institutions	986,592	591,837	1,138,927
Total interest- bearing liabilities	**3,215,097**	**1,928,673**	**3,165,235**

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

Interest expense increased by GEL 26.2 million (US$15.7 million), or 26.4%, for the six months ended 30 June 2011 to GEL 125.8 million (US$75.5 million) from GEL 99.6 million for the six months ended 30 June 2010. The increase was the result of an increase both in interest expense on amounts due to customers and also on amounts due to credit institutions reflecting an increase in the amount of total interest-bearing liabilities, while the overall cost of deposits during such period remained relatively stable. Effective average interest rates paid on the Bank's customer account balances for the six months ended 30 June 2011 and the year ended 31 December 2010 for Lari customer accounts were 8.0% and 6.3%, respectively. Effective average interest rates paid on the Bank's customer account balances for the six months ended 30 June 2011 and the six months ended 30 June 2010 for foreign currency customer accounts (substantially all of which were denominated in US Dollars) were 7.3% and 7.9%, respectively. Consolidated foreign currency amounts due to customers at 30 June 2011 and 31 December 2010 accounted for 65.9% and 72.1%, respectively, of the total consolidated amounts due to customers at each date. Currency-blended customer deposit yields comprised 7.2% and 8.0% for the six months ended 30 June 2011 and 2010, respectively.

The Bank's Ukrainian subsidiary, BG Bank, contributed interest expense of GEL 8.7 million in the six months ended 30 June 2010 and GEL 2.0 million (US$1.2 million) in the six months ended 30 June 2011.

Net Interest Income

As a result of the foregoing, net interest income increased by GEL 12.5 million (US$7.5 million), or 12.4%, for the six months ended 30 June 2011 to GEL 113.4 million (US$68.0 million) from GEL 100.8 million for the six months ended 30 June 2010.

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

The Group's net interest margin was 8.6% in the first half of 2010 and declined to 7.4% in the first half of 2011. The decline was partially attributable to lower interest rates on the Bank's foreign currency-denominated loans to customers. In addition, during six months ended 30 June 2011, average lower-margin non-loan assets (primarily deposits with other banks, NBG certificates of deposit and treasury bills and government bonds issued by the Ministry of Finance Georgia) comprised 22.5% of the Group's total average interest-earning assets compared to 22.6% in the comparable period in 2010. The Group's cost of funds declined from 8.3% in the first half of 2010 to 8.0% in the first half of 2011.

Net Fee and Commission Income

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

The following table shows the principal components of the Group's net fee and commission income.

	For the six months ended 30 June		
	2011		**2010**
	(audited)		*(unaudited)*
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(thousands of Lari)*
Settlement operations	28,630	17,175	18,825
Guarantees and letters of credit	7,624	4,573	6,068
Cash operations	4,367	2,620	4,156
Brokerage service fee	459	275	530
Currency conversion operations	880	528	270
Advisory	1,175	705	84
Other	501	301	3,708
Fee and commission income	**43,636**	**26,177**	**33,641**
Settlement operations	(5,981)	(3,588)	(3,462)
Guarantees and letters of credit	(682)	(409)	(1,021)
Cash operations	(1,628)	(977)	(406)
Insurance brokerage service fees	(355)	(213)	(475)
Currency conversion operations	(634)	(380)	(4)
Other	(386)	(232)	(981)
Fee and commission expense	**(9,666)**	**(5,799)**	**(6,349)**
Net fee and commission income	**33,970**	**20,378**	**27,292**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

Net fee and commission income increased by GEL 6.7 million (US$4.0 million), or 24.5%, from GEL 27.3 million for the six months ended 30 June 2010 to GEL 34.0 million (US$20.4 million) for the six months ended 30 June 2011.

The increase in fee and commission income for the six months ended 30 June 2010 compared to the six months ended 30 June 2011 was primarily due to a GEL 9.8 million (or 52.1%) increase in income from settlement operations, which included a GEL 7.1 million increase in income from American Express card transactions. Bank of Georgia is continuing to roll out its exclusive introduction of American Express cards to the Georgian market. These cards have a higher margin than other credit cards as a result of the higher fees paid by merchants for processing. The increase was partially offset by a GEL 3.2 million (or 86.5%) decrease in fees from Other, which was higher in the first half of 2010 as a result of fees relating to restructuring of customers' credit card debt as a result of the weaker financial conditions in 2009 and 2010.

The increase in fee and commission expense for the six month period ended 30 June 2011 compared to the six months period ended 30 June 2010 was primarily due to a GEL 2.5 million (or 72.8%) increase in expenses on settlement operations, primarily related to higher volumes of American Express card transactions.

Net Insurance Revenue

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

The following table sets forth the principal components of the Group's net insurance revenue.

	For the six months ended 30 June		
	2011		2010
	(audited)		(unaudited)
	(thousands of Lari)	(thousands of US$)[1]	(thousands of Lari)
Life insurance contracts premium written	1,582	949	1,673
General insurance contracts premium written	32,639	19,579	31,325
Total premiums written	**34,221**	**20,528**	**32,998**
Gross change in life provision[2]	(279)	(167)	(737)
Gross change in general insurance contracts unearned premium provision[3]	(5,990)	(3,593)	(5,938)
Total gross premiums earned on insurance contracts	**27,952**	**16,768**	**26,323**
Reinsurers' share of life insurance contracts premium written	(448)	(269)	(759)
Reinsurers' share of general insurance contracts premium written	(5,399)	(3,239)	(6,652)
Reinsurers' share of change in life provision	(146)	(88)	321
Reinsurers' share of change in general insurance contracts unearned premium provision	1,164	698	2,594
Total reinsurers' share of gross earned premiums on insurance contracts	**(4,829)**	**(2,898)**	**(4,496)**
Net insurance premiums earned	**23,123**	**13,870**	**21,827**
Life insurance claims paid	(258)	(155)	(443)
General insurance claims paid	(14,776)	(8,864)	(14,000)
Total insurance claims paid	**(15,034)**	**(9,019)**	**(14,443)**
Reinsurers' share of life insurance claims paid	111	67	379
Reinsurers' share of general insurance claims paid	629	377	576
Gross change in total reserves for claims	360	216	(1,548)
Reinsurers' share of change in total reserves for claims	(93)	(56)	1,587
Net insurance claims incurred	**(14,027)**	**(8,415)**	**(13,449)**
Net insurance revenue	**9,096**	**5,455**	**8,378**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

(2) Represents provisions for expected claims based on the total amount of insurance underwritten and actuarial calculations.

(3) Represents deferred revenue. For non-life insurance business, premiums written are recognised at policy inception and earned on a pro rata basis over the term of the related policy coverage.

In the six months ended 30 June 2011, the Group's net insurance revenue increased by GEL 0.7 million (US$0.4 million), or 8.6%, to GEL 9.1 million (US$5.5 million), compared to GEL 8.4 million in the six months ended 30 June 2010. This was primarily due to a GEL 1.3 million (US$0.8 million) (or 5.9%) increase in the Group's net insurance premiums earned during such period, reflecting the general growth of the Group's insurance business, particularly in health insurance. The increase was partially offset by an increase in net insurance claims incurred over the same period, also reflecting the growth of the Group's insurance business. Net insurance claims incurred for the six months ended 30 June 2011 amounted to GEL 14.0 million (US$8.4 million), compared to GEL 13.4 million for the six months ended 30 June 2010.

The types of the insurance contracts and policies and insurance products sold by ABCI have not materially changed from period to period. However, the number of policies sold and the number of claims incurred varies, as well as the average premiums collected per policy and average amount of cost incurred per claim. Gross written premiums from the government of Georgia funded health insurance projects comprised GEL 6.2 million and GEL 6.9 million during the six months ended 30 June 2011 and 2010, respectively, representing a decrease of 10.9%. Gross claims incurred on government of Georgia funded health insurance policies comprised GEL 4.5 million and GEL 3.6 million during the six months ended 30 June 2011 and 2010, respectively, representing an increase of 25.4%.

In the first half of 2010, the government of Georgia decreased the average annual insurance premiums paid for government funded health insurance contracts by 19.1%. However, this decrease was more than offset by increases in the total number of health insurance policies sold by ABCI and the overall increase in revenue from private health insurance contracts.

Other Operating Non-Interest Income

The Group's other operating non-interest income comprises net gains (losses) from trading securities and investment securities available-for-sale, net gains (losses) from derivative financial instruments, net gains (losses) from revaluation of investment properties, net gains from foreign currencies and other operating income. The following table sets out certain information on the Group's other operating non-interest income for the periods indicated:

	For the six months ended 30 June		
	2011		2010
	(audited)		*(unaudited)*
	(thousands of Lari)	*(thousands of US$)*[1]	*(thousands of Lari)*
Net gains from trading securities and investment securities available-for-sale	732	439	2,140
Net gains (losses) from derivative financial instruments	2,492	1,495	(5,216)
Net gains from revaluation of investment properties	—	—	3,082
Net gains from foreign currencies:			
- dealing	21,112	12,665	15,747
- translation differences	22,299	13,377	431
Other operating income	12,762	7,655	8,173
Other operating non-interest income	**59,397**	**35,631**	**24,357**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

The Group's other operating non-interest income increased by GEL 35.0 million (US$21.0 million), or 143.9%, to GEL 59.4 million in the first half of 2011 from GEL 24.4 million in the comparable period of 2010, primarily as a result of increases in net gains from foreign currencies, net gains from derivative financial instruments and other operating income. These increases were partially offset by the decreased net gains from trading securities and investment securities available-for-sale and from revaluation of investment properties.

Net Gains from Trading Securities and Investment Securities Available-for-Sale

The Group's trading securities mostly comprise shares and bonds of different Ukrainian corporates held by BG Capital. Other than interest-earning debt securities, the Group's available-for-sale investment securities comprise investments in shares of Georgian corporates held principally by BG Capital and Liberty Consumer.

Net gains from trading securities and investment securities available-for-sale decreased by GEL 1.4 million (US$0.8 million), or 65.8%, to GEL 0.7 million (US$0.4 million) in the six months ended 30 June 2011 from GEL 2.1 million for the six months ended 30 June 2010. This was primarily attributable to reduced trading actively by, and an overall reduction in the portfolio of, BG Capital in respect of its Ukrainian operations.

Net Gains (Losses) from Derivative Financial Instruments

The Group's derivative financial instruments comprise interest rate swaps on borrowings from international credit institutions and, to a much lesser extent, call options on gold, oil and foreign currencies (US Dollar and Euros) which are wrapped up into structured products which are then sold on to the Group's clients. Interest rate swaps on borrowings from international credit institutions are entered into in order to hedge the Group's exposure to floating-rate interest payments due to international credit institutions. Call options are entered into in order to hedge the Group's exposure to interest payments due on customers' investment deposits linked to the prices of these commodities.

Net gains (losses) from derivative financial instruments changed to a net gain of GEL 2.5 million (US$1.5 million) for the six months ended 30 June 2011, from a net loss of GEL 5.2 million for the six months ended 30 June 2010. This change was attributable to a change in the fair value of one of the Bank's interest rate swap agreements resulting from an increase in LIBOR in the six months ended 30 June 2011.

Net Gains from Revaluation of Investment Properties

The Group's investment properties comprise land owned for development purposes, as well as commercial real estate leased to third parties. The Group generally revalues its investment properties annually and more frequently where there is evidence that the value of the properties may have materially changed.

The Group experienced no net gains or losses from the revaluation of investment properties in the six months ended 30 June 2011, compared to net gains of GEL 3.1 million for the six months ended 30 June 2010. This change was attributable to a revaluation in the first half of 2010 and no revaluation having taken place in the first half of 2011 (as there was no evidence of a change in market value during the period).

Net Gains from Foreign Currencies

Net gains from foreign currency dealing operations comprise (i) currency conversion commission income from the Group's customers and (ii) net foreign currency gains from the Group's spot currency deals.

Net gains from foreign currencies increased by GEL 27.2 million (US$16.3 million), or 168.3%, to GEL 43.4 million (US$26.0 million) for the six months ended 30 June 2011 from GEL 16.2 million for the six months ended 30 June 2010. The increase was primarily attributable to translation differences.

Net gains from foreign currency translation differences in the income statement for the six months ended 30 June 2011 include a GEL 20.1 million (US$12.1 million) net foreign currency gain resulting from revaluation of the Group's Belarusian Rouble (BYR) denominated currency hedge arrangement. The Group maintains a short position in BYR. Devaluation of the Belarusian Rouble during the six months ended 30 June 2011 depreciated the Lari equivalent value of BNB shareholders' equity and the resulting loss was recognised in the other comprehensive income statement. However, the loss was more than offset by the above-mentioned BYR denominated currency hedge arrangement.

Net gains from foreign currency dealing increased during the six months ended 30 June 2011 as a result of increased business activity and increased volumes of foreign currency conversion operations in the sector.

Other Operating Income

Other operating income comprises other banking operations, such as commissions from cash collection services, credit card data processing, insurance commissions, non-recurring gains from disposal of repossessed assets, revenues of non-core subsidiaries held by Liberty Consumer, revenues from synergistic healthcare businesses of ABCI and revenue of SBRE.

Other operating income increased by GEL 4.6 million (US$2.8 million), or 56.1%, for the six months ended 30 June 2011 to GEL 12.8 million (US$7.7 million) from GEL 8.2 million for the six months ended 30 June 2010. The increase in operating income reflects higher revenue from the healthcare businesses and the consolidation of Joint Stock Company Teliani Valley (**"Teliani Valley"**), a winery operating in Georgia and Ukraine, in which Liberty Consumer has held a 52.33% interest since 28 February 2010. As a result, the first six months of 2011 includes six months of results of Teliani Valley whereas the comparable period in 2010 includes only four months of such results. Liberty Consumer obtained its controlling stake in Teliani Valley in the disposition of its non-core available-for-sale investment in Joint Stock Company Nikora; as part of the consideration for the acquisition of its own shares, Joint Stock Company Nikora transferred shares of Teliani Valley to Liberty Consumer. Liberty Consumer's management believed that this swap was beneficial to Liberty Consumer shareholders as Teliani Valley was a more liquid investment than Joint Stock Company Nikora.

Revenue

As a result of the foregoing factors, the Group's revenue increased by GEL 55.0 million (US$33.0 million), or 34.2%, to GEL 215.8 million (US$129.5 million) for the six months ended 30 June 2011 from GEL 160.9 million for the six months ended 30 June 2010.

Other Operating Non-Interest Expenses

Other operating non-interest expenses comprise salaries and other employee benefits, general and administration expenses, depreciation and amortisation, impairment reversal (charge) of other assets and provisions and other operating expenses.

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

	For the six months ended 30 June		
	2011		2010
	(audited)		*(unaudited)*
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(thousands of Lari)*
Salaries and other employee benefits	(57,722)	(34,626)	(52,757)
General and administration expenses	(30,582)	(18,346)	(28,433)
Depreciation and amortisation	(12,941)	(7,763)	(13,314)
Other operating expenses	(4,701)	(2,820)	(2,988)
Other operating non-interest expense	**(105,946)**	**(63,555)**	**(97,492)**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

The Group's other operating non-interest expense for the six months ended 30 June 2011 increased by GEL 8.5 million (US$5.1 million), or 8.7%, to GEL 105.9 million (US$63.6 million) from GEL 97.5 million for the six months ended 30 June 2010. The increase was primarily due to general growth in the Group's operations between the two periods.

Salaries and Other Employee Benefits

Salaries and other employee benefits include salaries and bonuses as well as social security costs.

Salaries and other employee benefits increased by GEL 5.0 million (US$3.0 million), or 9.4%, to GEL 57.7 million (US$34.6 million) in the six months ended 30 June 2011 from to GEL 52.8 million in the six months ended 30 June 2010. This was partially attributable to a one-off correction of withholding tax (described below) and an increase in the number of Group employees relating to the growth of the Group's business in Georgia, as well as generally higher base salaries and bonuses. The Group had 5,315 employees as of 30 June 2011, compared to 5,118 employees as of 30 June 2010.

Salaries and other employee benefits include GEL 7.4 million and GEL 4.7 million of the Rubicon Executive Equity Compensation Plan (**"EECP"**) costs for the six months ended 30 June 2011 and for the six months ended 30 June 2010, respectively, associated with the existing share-based compensation scheme approved by the Group. EECP costs for the six months ended 30 June 2011 include a GEL 2.9 million one-time correction of the respective withholding tax in respect of prior years based on the new tax ruling obtained by the Bank from tax authorities in Georgia. The new tax ruling and respective change in accrual of withholding tax also resulted in a GEL 3.3 million corporate tax benefit.

General and Administration Expenses

General and administration expenses include expenses for marketing and advertising, occupancy and rent, repairs and maintenance, legal and other professional services, operating taxes, communications, office supplies, business trips, security, corporate hospitality and entertainment, banking services, penalties, personnel training and recruitment, insurance expenses and other administration expenses.

General and administrative expenses increased by GEL 2.1 million (US$1.3 million), or 7.6%, to GEL 30.6 million (US$18.3 million) for the six months ended 30 June 2011 from GEL 28.4 million for the six months ended 30 June 2010. This was attributable to the overall growth of the Group's business.

Depreciation and Amortisation

Depreciation and amortisation decreased by GEL 0.4 million (US$0.2 million), or 2.8%, to GEL 12.9 million (US$7.8 million) for the six months ended 30 June 2011 from GEL 13.3 million for the six months ended 30 June 2010. The decrease over the period discussed was attributable to a reassessment of the Bank's buildings in January 2011, pursuant to which it reassessed the estimated useful economic lives of these assets and adjusted their annul straight-line depreciation rates. The assessment lengthened the average economic useful life of buildings, resulting in a reduced annual depreciation charge.

Other Operating Expenses

Other operating expenses comprise insurance commission expenses, other operating expenses incurred by non-banking subsidiaries of the Group involved in certain of the Group's ancillary businesses and other miscellaneous operating expenses.

Other operating expenses increased by GEL 1.7 million (US$1.0 million), or 57.3%, to GEL 4.7 million (US$2.8 million) for the six months ended 30 June 2011 from GEL 3.0 million for the six months ended 30 June 2010. This was primarily the result of GEL 1.3 million of additional expenses relating to the growth of the healthcare business, as well as miscellaneous expenses of BNB and from the consolidation of Teliani Valley into the Group.

Operating Income Before Cost of Credit Risk

As a result of the foregoing factors, the Group's operating income before cost of credit risk increased by GEL 46.5 million (US$27.9 million), or 73.4% to GEL 109.9 million (US$65.9 million) for the six months ended 30 June 2011 from GEL 63.4 million for the six months ended 30 June 2010.

Cost of Credit Risk

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

	For the six months ended 30 June		
	2011		2010
	(audited)		*(unaudited)*
	(thousands of Lari)	*(thousands of US Dollars)*(1)	*(thousands of Lari)*
Impairment charge on loans to customers	(11,331)	(6,797)	(23,878)
(Impairment charge) reversal of impairment on finance lease receivables	(171)	(103)	592
Reversal of impairment on other assets and provisions	3,240	1,944	3,331
Cost of credit risk	**(8,262)**	**(4,956)**	**(19,955)**

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

Cost of credit risk decreased by GEL 11.7 million (US$7.0 million), or 58.6%, to GEL 8.3 million (US$5.0 million) for the six months ended 30 June 2011 from GEL 20.0 million for the six months ended 30 June 2010. The decrease was primarily the result of significantly improved credit quality of the Group's loans to customers, mostly due to overall improvement of the economic environment in Georgia as well as the disposal of an 80% equity interest in BG Bank which had significant provisions for loans to customers due to the lower quality of its loan portfolio.

Impairment Charge on Loans to Customers

Impairment charge on loans to customers comprises charges for the allowances for impairment of loans made to retail and corporate banking customers.

Impairment charge on loans to customers for the six months ended 30 June 2011 decreased by GEL 12.5 million (US$7.5 million), or 52.5%, to GEL 11.3 million (US$6.8 million) compared to GEL 23.9 million for the six months ended 30 June 2010. The decrease was primarily due to improvements in the economy generally and in the Group's loan portfolio quality. Allowance for loan impairment was GEL 121.7 million (US$73.0 million) (or 4.9% of total gross loans) as of 30 June 2011.

(Impairment Charge) Reversal of Impairment on Finance Lease Receivables

(Impairment charge) reversal of impairment on finance lease receivables all relate to the Bank's leasing subsidiary. See Part XV "Lending Policies and Procedures — Assessments of Provisions for Loan Impairment".

Impairment charge on finance lease receivables was GEL 0.2 million (US$0.1 million) in the six months ended 30 June 2011, compared to a reversal of impairment on finance lease receivables of GEL 0.6 million in the six months ended 30 June 2010.

Reversal of Impairment on Other Assets and Provisions

Impairment charge on other assets and provisions comprises allowances for impairment of investments in associates, other assets (essentially non-loan and non-lease receivables) and guarantees and commitments and reversals of such impairment charges.

Reversal of impairment for other assets and provisions decreased to GEL 3.2 million (US$1.9 million) for the six months ended 30 June 2011 from a reversal of GEL 3.3 million for the six months ended 30 June 2010.

Reversal of impairment during six months of 2011 primarily related to a reassessment of provisions for banking guarantees. In 2011 the Group changed its methodology for assessing provisions for potential losses on guarantees by introducing collective impairment of guarantees and off-balance sheet commitments based on a formula which takes into account the past history of actual losses from similar contracts. Previously, guarantees were assessed on an individual basis.

Reversal of impairment during the first half of 2010 primarily related to reversal of allowance for the investments in disposed or acquired associates as well as the recovery of some receivables by the Bank.

Net Operating Income

As a result of the foregoing, the Group had net operating income of GEL 101.6 million (US$61.0 million) for the six months ended 30 June 2011, compared to GEL 43.4 million for the six months ended 30 June 2010.

Impairment of Goodwill and Property and Equipment

Impairment of Goodwill

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

The Group had an impairment of goodwill charge of GEL 13.0 million in the six months ended 30 June 2011 relating to the partial write-off of BNB goodwill as a result of an impairment test. There was no impairment of goodwill charge in the six months ended 30 June 2010.

Goodwill with an indefinite useful life that was acquired through business combinations has been allocated to four individual cash-generating units, which are also reportable segments, for impairment testing: Corporate Banking, Retail Banking, Insurance and Asset & Wealth Management and Brokerage. The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	As of 30 June		As of 31 December
	2011		2010
	(audited)		*(audited)*
	(thousands of Lari)	*(thousands of US Dollars)[1]*	*(thousands of Lari)*
Insurance & Healthcare	18,962	11,375	18,962
Retail banking	12,433	7,458	12,433
BNB	10,394	6,235	23,394
Corporate banking	9,965	5,978	9,965
Liberty Consumer	4,458	2,674	4,458
Total	**56,212**	**33,720**	**69,212**

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

Impairment of Property and Equipment

Impairment of property and equipment comprises impairment charges associated with property and equipment.

Impairment of property and equipment during the six months ended 30 June 2011 and 2010 was nil.

Non-Operating Expense

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

	For the six months ended 30 June		
	2011		2010
	(audited)		*(unaudited)*
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(thousands of Lari)*
Share of loss of associates	(251)	(151)	—
Other non-operating expense	(5,452)	(3,270)	(795)
Non-operating expense	**(5,703)**	**(3,421)**	**(795)**

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

Share of Loss of Associates

Share of loss of associates represents the Group's share of its associates' profits or losses. In the periods under review it relates only to the associates held by Liberty Consumer. Share of loss of associates was a loss of GEL 0.3 million (US$0.2 million) in the six months ended 30 June 2011 and was nil in the six months ended 30 June 2010.

Other Non-Operating Expense

Other non-operating expense comprises expenses which are incurred outside of the ordinary course of business.

The Group's other non-operating expense increased by GEL 4.7 million (US$ 2.8 million) to GEL 5.5 million (US$3.3 million) for the six months ended 30 June 2011 from GEL 0.8 million in the six months ended 30 June 2010. The change primarily related to expenses incurred in the first half of 2011 in connection with the Bank's repurchase of US$77.6 million (par value) of its eurobonds at a purchase price of 104.0% of par value.

Profit Before Income Tax Expense From Continuing Operations

As a result of the foregoing, the Group had profit before income tax expense from continuing operations of GEL 82.9 million (US$49.7 million) for the six months ended 30 June 2011, compared to GEL 42.6 million for the six months ended 30 June 2010.

Income Tax Expense

The Group's income tax expense increased by GEL 0.6 million (US$ 0.4 million), or 10.1%, to GEL 6.9 million (US$4.2 million) for the six months ended 30 June 2011 from GEL 6.3 million for the six months ended 30 June 2010.

The income tax rate applicable to the majority of the Group's income is the income tax rate applicable to subsidiaries income which ranges from 15% to 25% (2010: from 15% to 26%).

The Group's effective income tax rate differs from the statutory income tax rates. As of 30 June 2011 and 30 June 2010, a reconciliation of the Group's effective income tax expense with the income tax expense that would theoretically be incurred based on statutory rates is as follows:

	For the six months ended 30 June		
	2011		2010
	(audited)		*(unaudited)*
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(thousands of Lari)*
Profit before income tax expense from continuing operations	82,918	49,741	42,635
Net loss before income tax benefit from discontinued operations	(35,434)	(21,256)	—
Profit (loss) before income tax expense	**47,484**	**28,485**	**42,635**
Statutory tax rate	15%	15%	15%
Theoretical income tax expense at the statutory rate	**(7,123)**	**(4,273)**	**(6,395)**
Tax at the domestic rates applicable to profits in the respective country	(936)	(561)	94
Correction of prior year declarations	8,189	4,912	—
Loss on disposal of subsidiary	18,593	11,154	—
Other operating income	701	421	95
State securities at lower tax rates	—	—	252
Impairment of intangible assets	(3,250)	(1,950)	—
Other	87	52	(335)
Income tax benefit (expense)	**16,261**	**9,755**	**(6,289)**
Income tax expense attributable to continuing operations	(6,926)	(4,155)	(6,289)
Income tax benefit attributable to a discontinued operation	23,187	13,910	—

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

Correction of prior year declarations in the above table includes GEL 3.3 million of corporate income tax benefit recognised in 2011, based on a tax ruling obtained from the tax authorities in Georgia regarding the updated treatment of the deductibility of the share-based compensation expense before taxable profit.

Profit for the Period from Continuing Operations

The Group's profit for the period from continuing operations increased by GEL 39.6 million (US$ 23.8 million), or 109.1%, to GEL 76.0 million (US$45.6 million) for the six months ended 30 June 2011 from GEL 36.3 million for the six months ended 30 June 2010, for the reasons described above.

Net Loss from Discontinued Operations

In February 2011, the Group disposed of an 80.0% equity interest in BG Bank to a number of Ukrainian individuals. The total consideration (including brokerage fees paid to BG Capital, the Bank's wholly owned brokerage subsidiary) amounted to GEL 16.8 million (US$9.6 million), of which GEL 8.9 million (US$5.0 million) has been paid and the remaining GEL 8.2 million (US$4.6 million) is due to be paid to the Group by the end of 2011. The Group's net realised loss on this disposal comprised GEL 6.3 million. As 30 June 2011, the Group's equity interest in BG Bank was 19.35%.

As a result of this disposal the Group recorded a net loss from discontinued operations of GEL 12.2 million (US$7.3 million) for the six months ended 30 June 2011, analysed as follows:

	For the six months ended 30 June 2011
	(audited) *(thousands of Lari)*
Loss from discontinued operations:	
Reclassification of foreign currency translation loss from devaluation of Ukrainian Hryvnia accumulated through other comprehensive income during prior periods	(29,126)
Realised loss on disposal comprising net difference between the adjusted carrying value of the investment in 80% of BG Bank as of the date of disposal and the fair value of respective consideration received	(6,308)
Immediate corporate income tax benefit recognised from the statutory loss on disposal of 80% stake in JSC BG Bank	23,187
Net loss from discontinued operations	**(12,247)**

The Group had nil net loss from discontinued operations in the six months ended 30 June 2010.

Profit for the Period

The Group's net profit increased by GEL 27.4 million (US$ 16.4 million), or 75.4%, to GEL 63.7 million (US$38.2 million) for the six months ended 30 June 2011 from GEL 36.3 million for the six months ended 30 June 2010, for the reasons described above.

Years Ended 31 December 2010, 2009 and 2008

Interest Income

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

	For the years ended 31 December		
	2010	2009	2008
	(thousands of Lari)	*(audited)* *(thousands of Lari)*	*(thousands of Lari)*
Interest income attributable to:			
Loans to customers	389,402	361,176	363,013
Finance lease receivables	4,159	5,844	7,010
Amounts due from credit institutions	9,795	5,037	10,732
Investment securities:			
- held-to-maturity	12,498	5,725	16,457
- available-for-sale	7,287	1,276	6,727
Total interest income	**423,141**	**379,058**	**403,939**

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

	As of 31 December		
	2010	2009	2008
	(thousands of Lari)	*(audited)* *(thousands of Lari)*	*(thousands of Lari)*
Interest-earning assets			
Cash and cash equivalents(1)	229,587	123,983	163,317
Amounts due from credit institutions(2)	116,469	64,620	81,403
Net loans to customers	2,351,697	1,661,331	2,039,022
Finance lease receivables	14,419	16,896	41,605
Investment securities:			
- held-to-maturity	21	249,196	22,845
- available-for-sale	285,628	6,990	12,014
Total interest-earning assets	**2,997,821**	**2,123,016**	**2,360,206**

Notes:

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

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

Total interest income increased by GEL 44.1 million, or 11.6%, to GEL 423.1 million in 2010 from GEL 379.1 million in 2009, having decreased by GEL 24.9 million, or 6.2%, from GEL 403.9 million in 2008.

The increase from 2009 to 2010 was primarily attributable to an increase in interest income on gross loans to customers, which in turn, was predominantly due to the growth of the Group's loan portfolio as a result of a recovery in the Georgian economy starting from the second half of 2009. In particular, interest income from gross loans to customers increased by 7.8% to GEL 389.4 million in 2010 from GEL 361.2 million in 2009. The increase in interest income from 2009 to 2010 was mainly attributable to the growth of net loans to customers by 41.6% between 31 December 2009 and 31 December 2010. However, average gross loans to customers between 2009 and 2010 grew at a much slower pace of 9.6%%, while the currency-blended loan yield decreased to 17.9% in 2010 from 18.2% in 2009. In addition, interest income on the Group's investment securities portfolio grew as the Group acquired further investment securities when the NBG and the government of Georgia increased their issues of debt securities in the second half of 2009 and in 2010. The decrease of interest income from 2008 to 2009 was mainly attributable to a decrease in interest income from investment securities, credit institutions and finance lease receivables.

Interest income on gross loans to customers decreased in 2009 by 0.5% from GEL 363.0 million in 2008. Although the Group's net loans to customers decreased by 18.5% from GEL 2,039.0 million as of 31 December 2008 to GEL 1,661.3 million as of 31 December 2009 (due to the slowdown in lending activity in the Georgian banking sector as a result of the 2008 Conflict and the global economic slowdown) and, although the currency-blended loans yield decreased from 18.9% in 2008 to 18.2% in 2009, the interest income on loans to customers decreased only marginally from GEL 363.0 million in 2008 to GEL 361.2 million in 2009.

The effective average interest rates on the Bank's gross loans to customers were 24.1%, 24.6% and 24.3% for Lari loans, and 17.5%, 17.2% and 16.0% for foreign currency loans, in 2010, 2009 and 2008, respectively. The currency-blended loan yields of the Group were 17.9%, 18.2% and 18.9% in 2010, 2009 and 2008, respectively.

Foreign currency-denominated loans to customers accounted for 77.0%, 79.8% and 75.3% of the total gross loans to customers as of 31 December 2010, 2009 and 2008, respectively.

Interest income on finance lease receivables decreased by 28.8% to GEL 4.2 million in 2010 from GEL 5.8 million in 2009, having decreased by 16.6% from GEL 7.0 million in 2008. The decrease in interest income on finance lease receivables from 2008 to 2010 was principally due to the decline of the finance lease receivables of the Group during these years.

Interest income on amounts due from credit institutions increased by 94.5% to GEL 9.8 million in 2010 from GEL 5.0 million in 2009, having decreased by 53.1% from GEL 10.7 million in 2008. The increase in interest income on amounts due from credit institutions from 2009 to 2010 was principally due to an increase in average interest earned from inter-bank deposits following the increase in the amounts placed at a number of international and local banking institutions (including the NBG), as well as an increase in average amounts placed with credit institutions during 2010, as compared to 2009, as the Bank experienced a significant increase in customer deposits that led to the substantial increase in the Bank's liquidity levels. The decrease in interest income on amounts due from credit institutions from 2008 to 2009 was principally due to the 2.5% decline in average interest earned from the inter-bank deposits and time deposits with effective maturity of more than 90 days placed with banking institutions in 2009.

Interest income on the Group's interest-earning investment securities (including held-to-maturity or available-for-sale, interest-earning debt instruments only) increased by 182.6% to GEL 19.8 million in 2010 from GEL 7.0 million in 2009, having decreased by 69.8% from GEL 23.2 million in 2008. Annual fluctuations in interest income on investment securities are mainly attributable to changes in average effective interest rates earned on these securities, changes in the composition of the portfolio and fluctuations of the amount of debt securities held throughout the year. Interest income on the Group's investment securities increased between 2009 and 2010 primarily due to the Group maintaining a higher average securities portfolio in 2010 and the 3.4% increase in average interest rates on these securities in 2010 compared to 2009. In 2010, the Group's investment securities portfolio yielded an average of 7.5%, compared to 4.1% in 2009. Interest income on investment securities decreased by GEL 16.2 million from GEL 23.2 million in 2008 to GEL 7.0 million in 2009. This decrease was a result of the Group earning, on average, 1.3% more on these securities in 2008 compared to 2009, which more than offset a 26.2% higher average securities portfolio in 2009. The average investment security portfolio amounted to GEL 134.8 million in 2008 compared to GEL 170.1 million in 2009, while the investment securities portfolio yielded an average of 17.2% in 2008 compared to 4.1% in 2009.

The Group's interest-earning investment securities comprised Ministry of Finance treasury bills, certificates of deposits of central banks and Georgian government bonds. In addition, in 2009 and 2008, such securities also comprised corporate bonds. The investment securities portfolio (comprising held-to-maturity or available-for sale interest-earning debt instruments only) amounted to GEL 285.6 million, GEL 256.2 million and GEL 34.9 million as of 31 December 2010, 2009 and 2008 respectively. These securities included Georgian government treasury bills and bonds and NBG's certificate of deposits of GEL 281.1 million, GEL 249.2 million and GEL 22.8 million, as of the same dates, respectively.

Interest Expense

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

	For the year ended 31 December		
	2010	**2009**	**2008**
		(audited)	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*
Interest expense attributable to:			
Amounts due to customers	(114,968)	(96,935)	(86,064)
Amounts due to credit institutions	(91,829)	(91,582)	(97,035)
Total interest expense	**(206,797)**	**(188,517)**	**(183,099)**

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

	As of 31 December		
	2010	**2009**	**2008**
		(audited)	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*
Interest-bearing liabilities			
Amounts due to customers	2,026,308	1,273,130	1,193,129
Amounts due to credit institutions	1,138,927	928,615	1,216,722
Total interest-bearing liabilities	**3,165,235**	**2,201,745**	**2,409,851**

Total interest expense increased by 9.7% to GEL 206.8 million in 2010 from GEL 188.5 million in 2009, having increased by 3.0% from GEL 183.1 million in 2008. The increase in total interest expense between 2009 and 2010 and between 2008 and 2009 was primarily attributable to the increase in interest expense on amounts due to customers. Interest expense on amounts due to customers increased by 18.6% to GEL 115.0 million in 2010, from GEL 96.9 million in 2009, having increased by 12.6% from GEL 86.1 million in 2008. The 18.6% increase in interest expense on amounts due to customers from 2009 to 2010 was primarily driven by a GEL 753.2 million (or 59.2%) increase in amounts due to customers, which was only partially offset by a decline in the Bank's effective average interest rate on foreign currency denominated amounts due to customers from 8.8% in 2009 to 7.9% in 2010. The increase in interest expense on amounts due to customers from 2008 to 2009 was principally due to a GEL 80.0 million (or 6.7%) increase in amounts due to customers in 2009 and an increase in the Bank's average effective interest rates on foreign currency denominated amounts due to customers from 7.0% for the year ended 31 December 2008 to 8.8% for the year ended 31 December 2009.

The effective average interest rates paid on the Bank's customer account balances in Lari for 2010, 2009 and 2008 were 6.3%, 7.9% and 6.7%, respectively. The effective average interest rates paid on the Bank's customer balances in foreign currencies (mainly US Dollars) for 2010, 2009 and 2008 were 7.9%, 8.8% and 7.0%, respectively. The currency-blended customer deposit yields were 7.0%, 7.9% and 6.7% for 2010, 2009 and 2008, respectively. Consolidated foreign currency denominated customer account balances at 31 December 2010, 2009 and 2008 accounted for 72.1%, 69.7% and 70.4%, respectively, of the total consolidated balances of customer accounts.

The interest expense on amounts due to credit institutions increased by 0.3% to GEL 91.8 million as of 31 December 2010 from GEL 91.6 million as of 31 December 2009, having decreased by 5.6% from GEL 97.0 million as of 31 December 2008. The interest expense on amounts due to credit institutions remained relatively flat in 2010 compared to 2009, as the growth of the Group's borrowings from international credit institutions and the inter-bank deposits occurred mostly in November and December 2010. The decrease in interest expense on amounts due to credit institutions from 2008 to 2009 was principally due to a decrease in the size of the Group's amounts due to credit institutions, as well as a decrease in LIBOR, as 36.7% of the Bank's average borrowings from international credit institutions during 2009 had variable interest rates tied to six-month LIBOR. The size of the Group's amounts due to credit institutions decreased by 23.7% from GEL 1,216.7 million as of 31 December 2008 to GEL 928.6 million as of 31 December 2009. The decrease in amounts due to credit institutions from 2008 to

2009 was due to a decrease in borrowings from international credit institutions as well as inter-bank time deposits and loans as a result of a slowdown in the overall economic as well as lending activity in the first half of 2009.

Net Interest Income

Net interest income increased by 13.5% to GEL 216.3 million in 2010 from GEL 190.5 million in 2009, having decreased by 13.7% from GEL 220.8 million in 2008. The increase from 2009 to 2010 was principally due to a GEL 28.2 million increase in interest income from gross loans to customers and a GEL 12.8 million increase in interest income from investment securities, which was only partially offset by a GEL 18.3 million increase in total interest expense. The decrease from 2008 to 2009 was principally due to the decrease of interest income on every interest earning asset as a result of the significant decrease of overall economic activity, as well as lending and deposit gathering activity due to the impact of the 2008 Conflict and the global economic downturn.

The Group's net interest margin was 8.4% 8.5% and 9.5% in 2010, 2009 and 2008, respectively. Both, the currency-blended loan yield and the cost of funds declined in 2010 compared to 2009 resulting in largely flat net interest margin in 2010. The decline in net interest margin in 2009 was due to the combination of a decreased share of loans to customers as a percentage of total interest earning assets and an increase in liquid assets, which carry lower interest rates than loans to customers, in the second half of 2009.

Net Fee and Commission Income

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

	For the years ended 31 December		
	2010	2009	2008
		(audited)	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*
Settlement operations	50,511	33,907	33,659
Guarantees and letters of credit	12,362	10,764	8,625
Cash operations	8,061	6,145	6,947
Brokerage service fee	545	1,891	2,626
Currency conversion operations	677	1,024	1,766
Advisory	1,129	578	2,032
Other	980	10,290	7,848
Fee and commission income	**74,265**	**64,599**	**63,503**
Settlement operations	(7,324)	(4,299)	(3,974)
Guarantees and letters of credit	(1,164)	(2,106)	(2,038)
Cash operations	(780)	(1,619)	(564)
Insurance brokerage service fees	(646)	(534)	(5,965)
Currency conversion operations	(14)	(28)	(430)
Other	(917)	(988)	(563)
Fee and commission expense	**(10,845)**	**(9,574)**	**(13,534)**
Net fee and commission income	**63,420**	**55,025**	**49,969**

Net fee and commission income increased by 15.3% in 2010 to GEL 63.4 million from GEL 55.0 million in 2009, having increased by 10.1% from GEL 50.0 million in 2008. The increase in net fee and commission income from 2009 to 2010 was principally attributable to a GEL 16.6 million increase in fee and commission income from settlement operations and a GEL 1.6 million increase in income from guarantees and letters of credit, in each case as a result of the Group engaging in increased settlement operations and issuing increased volumes of guarantees and letters of credit as a result of the improved economic environment in Georgia starting from the second half of 2009. The increase in net fee and commission income from 2008 to 2009 was the result of a growth in sales of fee generating products and services as business activity picked up in 2009.

Fee and commission expense decreased by 29.3% from GEL 13.5 million in 2008 to GEL 9.6 million in 2009 and increased by 13.3% to GEL 10.8 million in 2010. The increase in fee and commission expense from 2009 to 2010 was principally the result of an increased fee and commission expenses on settlement operations in line with the growth of the volume of such transactions. The decrease in fee and commission expense from 2008 to 2009 was principally the result of a decline in insurance brokerage service expenses. The decline in insurance brokerage service expenses was primarily due to a change in presentation principles for this line item.

Net Insurance Revenue

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

	For the years ended 31 December		
	2010	2009	2008
	(audited) (thousands of Lari)		
Life insurance contracts premium written	2,562	2,865	3,456
General insurance contracts premium written	53,744	56,694	53,201
Total premiums written	**56,306**	**59,559**	**56,657**
Gross change in life provision	96	(377)	86
Gross change in general insurance contracts unearned premium provision	(1,001)	1,690	(6,311)
Total gross premiums earned on insurance contracts	**55,401**	**60,872**	**50,432**
Reinsurers' share of life insurance contracts premium written	(1,321)	(1,086)	(981)
Reinsurers' share of general insurance contracts premium written	(11,038)	(9,502)	(15,271)
Reinsurers' share of change in life provision	(57)	254	(4)
Reinsurers' share of change in general insurance contracts unearned premium provision	1,576	(5,061)	1,735
Total reinsurers' share of gross earned premiums on insurance contracts	**(10,840)**	**(15,395)**	**(14,521)**
Net insurance premiums earned	**44,561**	**45,477**	**35,911**
Life insurance claims paid	(1,272)	(830)	(455)
General insurance claims paid	(28,493)	(43,137)	(30,175)
Total insurance claims paid	**(29,765)**	**(43,967)**	**(30,630)**
Reinsurers' share of life insurance claims paid	988	523	351
Reinsurers' share of general insurance claims paid	1,497	12,356	5,443
Gross change in total reserves for claims	(1,486)	12,563	(6,053)
Reinsurers' share of change in total reserves for claims	868	(11,577)	3,994
Net insurance claims incurred	**(27,898)**	**(30,102)**	**(26,895)**
Net insurance revenue	**16,663**	**15,375**	**9,016**

Net insurance premiums earned decreased by 2.0% to GEL 44.6 million in 2010 from GEL 45.5 million in 2009, having increased by 26.6% from GEL 35.9 million in 2008. The decrease in net insurance premiums earned from 2009 to 2010 was due to a decrease in the average insurance premium tariffs stated by the government of Georgia for its subsidised health insurance programme for the socially vulnerable. Total gross written premiums from government of Georgia subsidised healthcare projects comprised GEL 12.9 million, GEL 11.1 million and GEL 7.8 million during 2010, 2009 and 2008, respectively, an increase of 16.1% during 2010 as compared to 2009 and an increase of 43.5% during 2009 as compared to 2008.

The increase in net insurance premiums earned from 2008 to 2009 was due to a rise in premiums earned across the main insurance products, which was mainly driven by health insurance.

Net insurance claims incurred decreased by 7.3% to GEL 27.9 million in 2010 from GEL 30.1 million in 2009, having previously increased by 11.9% from GEL 26.9 million in 2008. The decline in net insurance claims incurred in 2009 and 2010 was mostly due to improved claims administration by ABCI, the Group's insurance subsidiary. The growth in net insurance claims incurred in 2008 and 2009 was mostly due to an overall increase in the size of the Group's insurance business. Gross claims incurred on government of Georgia subsidised healthcare projects were GEL 8.6 million, GEL 7.6 million and GEL 4.9 million during 2010, 2009 and 2008, respectively, representing an increase of 12.7% during 2010, as compared to 2009, and an increase of 56.7% during 2009, as compared to 2008.

Other Operating Non-Interest Income

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

	For the year ended 31 December		
	2010	**2009**	**2008**
	(thousands of Lari)	*(audited)* *(thousands of Lari)*	*(thousands of Lari)*
Net gains (losses) from trading securities and investment securities available-for-sale	2,006	2,937	(4,934)
Net losses from derivative financial instruments	(7,826)	(6,266)	—
Net gains (losses) from revaluation of investment properties	350	(4,087)	(389)
Net gains from foreign currencies:			
- dealing	33,651	25,945	39,443
- translation differences	98	3,138	7,691
Other operating income	21,927	12,283	14,747
Other operating non-interest income	**50,206**	**33,950**	**56,558**

The Group's other operating non-interest income increased by 47.9% to GEL 50.2 million in 2010 from GEL 34.0 million in 2009, having decreased by 40.0% from GEL 56.6 million in 2008.

The increase in other operating non-interest income from 2009 to 2010 was principally a result of the increased gains from foreign currency transactions in 2010 compared to 2009 as business activity picked up and the volume of foreign currency transactions grew. Commissions earned (dealing gains) by the Group from currency exchange transactions increased by 29.7% to GEL 33.7 million in 2010. Additionally, other operating income increased by 78.5% to GEL 21.9 million in 2010, compared to GEL 12.3 million in 2009 and the Group had net gains of GEL 0.4 million from the revaluation of investment properties owned by the Group (mostly in Georgia) in 2010 compared to net losses from the revaluation of investment properties of GEL 4.1 million in 2009, following a stabilisation in real estate prices during 2010 as a result of the economic recovery in Georgia. These increases were partially offset by a decrease of GEL 0.9 million in net gains from trading securities and investment securities available-for-sale during 2010 and an increase in losses from derivative financial instruments. The decrease in net gains from trading securities and investments securities available-for-sale was primarily due to the decline in brokerage activity in Ukraine by BG Capital in 2010. The losses from derivative financial instruments were primarily due to the appreciation of the fair value of the Group's derivative financial liability related to the interest rate swap contract the Bank entered into with IFC in May 2009 in order to hedge its exposure to US Dollar interest rate risk on its outstanding long-term borrowings.

The decrease in other operating non-interest income from 2008 to 2009 was principally a result of gains from foreign currencies decreasing by 38.3% to GEL 29.1 million in 2009, net losses from derivative financial instruments and an increase in net losses from revaluation of investment properties.

Net Gains (Losses) from Trading Securities and Investment Securities Available-for-sale

The Group's net gains from trading securities and investment securities available-for-sale decreased by 31.7% to a gain of GEL 2.0 million in 2010 from GEL 2.9 million in 2009, having changed from a loss of GEL 4.9 million in 2008.

In 2010, the Group earned a profit of GEL 1.1 million from trading Ukrainian trading securities (corporate bonds and corporate shares). This gain was decreased from 2009 levels, when the Group earned GEL 2.8 million from trading securities primarily of Ukrainian corporates as liquidity in the Ukrainian market in 2009 was substantially higher than in 2010. In 2008, the Group suffered a net loss from trading securities and investment securities available-for-sale of GEL 4.9 million principally due to the reduction in value of its portfolio of corporate shares held by the Group's brokerage subsidiary in Ukraine, as a result of the global financial crisis.

Net Losses from Derivative Financial Instruments

The Group suffered a loss of GEL 7.8 million from its derivative financial instruments in 2010 following a decrease in market interest rates compared to fixed levels against which the Bank hedged (as described above) its floating interest rates. The Group suffered a loss of GEL 6.3 million from its derivative financial instruments in 2009 for the same reason.

Net Gains (Losses) from Revaluation of Investment Properties

In 2010, the Group earned GEL 0.4 million from the revaluation of investment properties, principally as a result of a slight increase in real estate prices driven by the start of the economic recovery in Georgia from the second half of 2009. In 2009, the Group posted a net loss of GEL 4.1 million from the revaluation of investment properties principally as a result of the continued decline in real estate prices driven by the economic slowdown in Georgia. In 2008, the Group posted a net loss of GEL 0.4 million from the revaluation of investment properties principally as a result of declining real estate prices driven by the economic slowdown in Georgia. As of 31 December 2010, the Group's investment property amounted to GEL 113.5 million.

Net Gains from Foreign Currencies

Net gains from foreign currencies (including dealing and translation differences) increased by 16.0% to GEL 33.7 million in 2010 from GEL 29.1 million in 2009, having decreased by 38.3% from GEL 47.1 million in 2008. The increase in gains from foreign currency transactions between 2009 and 2010 was largely a result of increases in the volume of the Group's foreign currency transactions following the start of the economic recovery in Georgia from the second half of 2009, subsequent increases in economic activity in Georgia in 2010, an increase in the Group's interest-earning assets and interest-bearing liabilities as well as the increased foreign currency dealing gains earned by BG Bank as a result of the Ukrainian Hryvnia devaluation. The decrease in gains from foreign currency transactions between 2008 and 2009 was largely a result of decreases in the volume of the Group's foreign currency transactions following the 2008 Conflict and the subsequent economic downturn in Georgia, reduced economic activity in Georgia in 2009 and a decrease in the Group's interest-earning assets and interest-bearing liabilities in 2009.

Other Operating Income

Other operating income increased by 78.5% to GEL 21.9 million in 2010 from GEL 12.3 million in 2009, having decreased by 16.7% from GEL 14.7 million in 2008. The increase in other operating income between 2009 and 2010 was mostly attributable to full consolidation of the revenue of Teliani Valley for ten months of 2010, while in 2009 Teliani Valley was an associate and only its net result was consolidated pro-rata to the Group's shareholding. The decrease in other operating income between 2008 and 2009 was attributable to an overall slowdown of economic activity following the 2008 Conflict and to the global financial crisis.

Revenue

As a result of the foregoing, the Group's revenue increased by 17.5% to GEL 346.6 million in 2010 from GEL 294.9 million in 2009, having decreased by 12.3% from GEL 336.4 million in 2008.

Other Operating Non-Interest Expenses

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

	For the years ended 31 December		
	2010	**2009**	**2008**
	(thousands of Lari)	*(audited)* *(thousands of Lari)*	*(thousands of Lari)*
Salaries and other employee benefits	(104,551)	(100,505)	(108,767)
General and administration expenses	(61,000)	(57,339)	(68,649)
Depreciation and amortisation	(27,963)	(25,428)	(20,288)
Other operating expenses	(6,253)	(11,740)	(9,828)
Other operating non-interest expense	**(199,767)**	**(195,012)**	**(207,532)**

The Group's other operating non-interest expenses increased by 2.4% to GEL 199.8 million in 2010 from GEL 195.0 million in 2009, having decreased by 6.0% from GEL 207.5 million in 2008. The increase in other operating non-interest expenses from 2009 to 2010 was principally due to an increase in depreciation, amortisation and impairment expenses, salaries and other employee benefits as well as general and administrative expenses. The decrease in other operating non-interest expenses from 2008 to 2009 was principally due to a decrease in salaries and other employee benefits as well as general and administration expenses.

Depreciation and Amortisation

Depreciation and amortisation increased by 10.0% to GEL 28.0 million in 2010 from GEL 25.4 million in 2009, having increased by 25.3% from GEL 20.3 million in 2008. The increase from 2009 to 2010 reflects additions to administrative properties and equipment following the return to normal levels of business operations in line with the improvement of the economy. The increase from 2008 to 2009 was largely attributable to impairment or accelerated depreciation of certain administrative buildings or other properties as a result of the 2008 Conflict. The growth also reflects amortisation of the amount paid for the Bank's exclusive American Express licence at the end of 2008, with the initial amortisation falling in 2009.

Salaries and Other Employee Benefits

Salaries and other employee benefits increased by 4.0% to GEL 104.6 million in 2010 from GEL 100.5 million in 2009, having decreased by 7.6% from GEL 108.8 million in 2008.

The increase in salaries and other employee benefits costs from 2009 to 2010 was largely attributable to the Group's increase in headcount in that period reflecting the general growth of its business. The decrease in salaries and other employee benefits costs from 2008 to 2009 was largely attributable to the fact that in December 2008, as part of the reorganisation of its retail banking business in Georgia, the Group reduced its headcount by 1,079 employees and the Group further reduced its headcount by 168 employees in 2009. The Group had 5,610, 4,781 and 4,949 employees as of 31 December 2010, 2009 and 2008, respectively. Prior to redundancies in December 2008, the Group's total number of employees was 6,034. For a description of the Group's EECP, see Paragraphs 19 to 23 of Part XXI "Additional Information".

General and Administration Expenses

General and administration expenses increased by 6.4% to GEL 61.0 million in 2010 from GEL 57.3 million in 2009, having decreased by 16.5% from GEL 68.6 million in 2008. The increase in general and administration expenses from 2009 to 2010 was due to marketing and advertising expenses, repairs and maintenances, office supplies, corporate hospitality, banking services, insurance expenses and personnel training and recruitment expenses as business activities picked up in 2010. The decrease in general and administration expenses from 2008 to 2009 was due to a decrease in, among others, marketing and advertising expenses, occupancy and rent, communications, repairs and maintenance, office supplies, corporate hospitality, travel expenses, banking services, insurance expenses, personnel training and recruitment expenses and cost savings connected to the reorganisation of the Bank's retail network in Georgia.

The Bank had 142, 141 and 151 branches in Georgia as of 31 December 2010, 2009 and 2008, respectively.

Other Operating Expenses

Other operating expenses decreased by 46.7% to GEL 6.3 million in 2010 from GEL 11.7 million in 2009, having increased by 19.5% from GEL 9.8 million in 2008. The decrease from 2009 to 2010 was due to cost efficiency measures implemented by the Group and its subsidiaries in 2010. The increase from 2008 to 2009 was principally due to numerous one-off and non-ordinary costs associated with the post-2008 Conflict period and social responsibility.

Operating Income Before Cost of Credit Risk

As a result of the foregoing factors, the Group's operating income before cost of credit risk increased by 47.0% to GEL 146.9 million in 2010 from GEL 99.9 million in 2009, having decreased by 22.5% from GEL 128.9 million in 2008.

Cost of Credit Risk

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

	For the year ended 31 December		
	2010	2009	2008
	(thousands of Lari)	*(audited)* *(thousands of Lari)*	*(thousands of Lari)*
Impairment charge on loans to customers	(49,886)	(118,882)	(122,812)
Reversal of impairment (impairment charge) on finance lease receivables	5,775	(6,859)	(1,335)
Impairment charge on other assets and provisions	(3,587)	(6,431)	(4,551)
Cost of credit risk	**(47,698)**	**(132,172)**	**(128,698)**

Cost of credit risk decreased by 63.9% to GEL 47.7 million in 2010 from GEL 132.2 million in 2009, having increased by 2.7% from GEL 128.7 million in 2008. The decrease from 2009 to 2010 was largely due to significant improvement of the loan portfolio credit quality in Georgia resulting from a significantly improved operating and economic environment as compared to the post-2008 Conflict period of 2008 and 2009. The increase from 2008 to 2009 was principally due to continuation of the conservative provisioning of impaired loans the 2008 Conflict, the deterioration of the economic environment in Ukraine and the overall impact of the economic downturn.

Impairment Charge on Gross Loans to Customers

Impairment charge on gross loans to customers decreased by 58.0% to GEL 49.9 million in 2010 from GEL 118.9 million in 2009, having decreased by 3.2% from GEL 122.8 million in 2008. Impairment charge on interest-earning assets decreased by 64.9% to GEL 44.1 million in 2010 from GEL 125.7 million in 2009, having increased by 1.3% from GEL 124.1 million in 2008. The decrease in the impairment charge on gross loans to customers in 2010 compared to 2009 was due to a recovery in the Georgian economy starting from the second half of 2009, a subsequent decrease in the number of the Group's customers unable to service their loans and a marked improvement in the Group's loan portfolio quality in 2010. In 2009, the significant portion of the impairment charge on gross loans to customers was attributable to the impairment charges of BG Bank in the amount of GEL 35.0 million and the impairment charge on Bank of Georgia's gross retail loans to customers in Georgia of GEL 69.6 million, or 29.4% and 58.5% of total impairment charge on gross loans to customers, respectively. Allowance for loan impairment was GEL 175.5 million (or 6.9% of gross total loans), GEL 166.5 million (or 9.1% of gross total loans) and GEL 106.6 million (or 5.0% of total gross loans) as of 31 December 2010, 2009 and 2008, respectively. The marginal 1.3% increase in the impairment charge on interest-earning assets in 2009 compared to 2008 was due to the high impairment charge at the end of 2008 that was made in anticipation of the deterioration of the asset quality as a result of the 2008 Conflict. In 2009, the impairment charge on interest earning assets remained high, due to the impact of the 2008 Conflict and the economic downturn that led to an increase in the number of the Group's customers unable to service their loans and the deterioration in the Group's loan portfolio quality in 2009.

Reversal of Impairment (Impairment Charge) on Finance Lease Receivables

Reversal of impairment on finance lease receivables was GEL 5.8 million in 2010 compared to Impairment charges on finance lease receivables of GEL 6.9 million in 2009 and GEL 1.3 million in 2008. The relatively low level of impairment charges in 2008 was due to the fact that the Group had a relatively low amount of finance lease receivables. The significant growth in impairment charges on finance lease receivables in 2009 was due to overdue contractual payments on several large finance lease agreements originated in 2009. The change to a reversal of impairment on finance lease receivables in 2010 was due to the repayment of the aforementioned large finance lease agreement.

Impairment Charge on Other Assets and Provisions

Impairment charge on other assets and provisions was GEL 3.6 million in 2010 compared to an impairment charge on other assets and provisions of GEL 6.4 million and GEL 4.6 million in 2009 and 2008, respectively. The 44.2% decrease in the impairment charge on other assets and provisions from 2009 to 2010 was mostly due to improvements in the asset quality of other asset and off-balance sheet commitments (guarantees and letters of credit) in Georgia, in line with the economic recovery taking place in the country. The 41.3% increase in the impairment charge on other assets and provisions from 2008 to 2009 was mostly due to an impairment charge for investments in associates of GEL 2.2 million and an impairment charge for other assets comprising GEL 6.3 million (principally attributable to provisioning for the Group's receivables from documentary operations) in 2009, which was partially offset by a reversal of a provision for guarantees and commitments in the amount of GEL 2.1 million.

In 2008, the Group incurred an impairment charge of GEL 4.6 million due to an increase in provisions for credit risks associated with guarantees due to the deterioration in the overall quality of the Group's total loan portfolio, including guarantee and letter of credit portfolio.

Net Operating Income

As a result of the foregoing, the Group had net operating income of GEL 99.2 million in 2010 compared to a net operating loss of GEL 32.3 million in 2009 and net operating income of GEL 0.2 million in 2008.

Impairment of Goodwill and Property and Equipment

Impairment of Goodwill

The Group did not have an impairment charge on goodwill in 2010 or 2008. The Group had an impairment charge on goodwill of GEL 73.1 million in 2009. This impairment charge in 2009 was principally due to the write-off of goodwill associated with BG Bank.

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

	As of 31 December		
	2010	2009	2008
	(thousands of Lari)	*(audited)* *(thousands of Lari)*	*(thousands of Lari)*
Insurance & Healthcare	18,962	18,962	18,962
Retail banking	12,433	14,708	14,701
BNB & BGB	23,394	23,394	91,410
Corporate banking	9,965	7,690	7,690
Liberty Consumer	4,458	1,023	1,475
Total	**69,212**	**65,777**	**134,238**

Impairment of Property and Equipment

Impairment of property and equipment was GEL 0.4 million in 2010 compared to impairment of property and equipment of GEL 3.2 million and GEL 0.2 million in 2009 and 2008, respectively.

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

Non-Operating (Expense) Income

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

	For the years ended 31 December		
	2010	2009	2008
	(thousands of Lari)	*(audited)* *(thousands of Lari)*	*(thousands of Lari)*
Share of profit (loss) of associates	255	(2,649)	(713)
Other non-operating (expense) income	(545)	5,308	—
Non-operating (expense) income	**(290)**	**2,659**	**(713)**

Non-operating expense was GEL 0.3 million in 2010 compared to non-operating income of GEL 2.7 million in 2009 and non-operating expense of GEL 0.7 million in 2008.

The change from non-operating income of GEL 2.7 million in 2009 to non-operating expense of GEL 0.3 million in 2010 was principally due to a change from other non-operating income of GEL 5.3 million in 2009 to other non-operating expense of GEL 0.5 million in 2010 due to the Group realising net gains of GEL 5.3 million from buying back its eurobonds in 2009 compared to realising a net loss of GEL 0.5 million on the buyback of its eurobonds in 2010. It was also due to a share of loss of associates of GEL 2.6 million in 2009 compared to a share of profit of associates of GEL 0.3 million in 2010. The share of loss of associates in 2009 was principally caused by losses in two associates (SB Iberia and SB Iberia 2) that subsequently became subsidiaries of the Group. The share of profit of associates in 2010 was principally caused by the economic recovery in 2010 having a positive effect on the results of associates. The non-operating expense of GEL 0.7 million in 2008 was due to a share of loss of associates of GEL 0.7 million due to the affect of the 2008 Conflict and the economic downturn on the results of associates.

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

As a result of the foregoing, the Group had profit before income tax expense from continuing operations of GEL 98.4 million in 2010 compared to a loss of GEL 105.9 million in 2009 and the loss of GEL 0.8 million in 2008.

Income Tax (Expense) Benefit

The Group had income tax expense of GEL 15.8 million in 2010 and income tax benefit of GEL 7.0 million and GEL 1.0 million in 2009 and 2008, respectively. The income tax expense in 2010 was attributable to pre-tax income principally generated in Georgia. The increase in the income tax benefit in 2009 was due to further pre-tax losses suffered in 2009. The income tax benefit in 2008 was due to pre-tax losses principally generated outside Georgia, (including Cyprus, Ukraine and Belarus) where statutory tax rates range from 10% to 25%.

	For the years ended 31 December		
	2010	2009	2008
		(audited)	
	(thousands of Lari)	*(thousands of Lari)*	*(thousands of Lari)*
Profit (loss) before income tax (expense) benefit from continuing operations	98,443	(105,906)	(804)
Net loss before income tax benefit from discontinued operations	—	—	—
Profit (loss) before income tax (expense) benefit	**98,443**	**(105,906)**	**(804)**
Statutory tax rate	15%	15%	15%
Theoretical income tax (expense) benefit at the statutory rate	**(14,766)**	**15,886**	**121**
Tax at the domestic rates applicable to profits in the respective country	(291)	3,614	837
Other operating income	229	408	(207)
State securities at lower tax rates	564	677	1,020
Tax effect of inter-company transactions	—	—	783
Non tax-deductible expenses:			
- Impairment of intangible assets	—	(10,308)	—
- Share-based compensation expenses	(1,325)	(717)	(1,240)
- Business trips	(288)	—	—
- Entertainment	(71)	—	—
- Charity	(10)	—	—
- Other impairment recoveries	—	(2,460)	(171)
- Other	182	(102)	(165)
Income tax (expense) benefit	**(15,776)**	**6,998**	**978**
Income tax (expense) benefit attributable to continuing operations	(15,776)	6,998	978
Income tax benefit attributable to a discontinued operation	—	—	—

Profit (Loss) for the Period From Continuing Operations

The Group generated a net profit for the period from continuing operations of GEL 82.7 million for the year ended 31 December 2010, suffered a net loss from continuing operations of GEL 98.9 million for the year ended 2009 and generated a net profit for the period from continuing operations of GEL 0.2 million for the year ended 31 December 2008 for the reasons described above.

Profit (Loss) for the Period

Net profit (loss) of the Group for the period is the same as net profit (loss) of the Group for the period from continuing operations.

Analysis of Consolidated Financial Position

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

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(audited) (thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Assets					
Cash and cash equivalents	338,408	203,004	611,584	357,889	415,821
Amounts due from credit institutions	308,067	184,803	116,469	64,620	81,403
Loans to customers, net	2,375,110	1,424,781	2,351,697	1,661,331	2,039,022
Finance lease receivables	64,791	38,867	14,419	16,896	41,605
Investment securities:					
- available for sale	404,317	242,542	294,940	19,590	33,737
- held-to-maturity	21	13	21	249,196	22,845
Investments in associates	3,758	2,254	5,632	10,323	16,716
Investment properties	99,353	59,600	113,496	79,509	47,289
Property and equipment	278,429	167,024	285,852	278,729	301,784
Goodwill	56,212	33,720	69,212	65,777	134,238
Other intangible assets	21,741	13,042	22,390	19,665	18,221
Income tax assets:					
- current	7,584	4,549	2,247	7,997	8,095
- deferred	13,390	8,032	18,178	15,487	4,691
Prepayments	27,845	16,704	23,365	18,140	18,319
Other assets	124,298	74,564	75,420	48,280	75,121
Total assets	**4,123,324**	**2,473,499**	**4,004,922**	**2,913,429**	**3,258,907**
Liabilities					
Amounts due to customers	2,228,505	1,336,836	2,026,308	1,273,130	1,193,129
Amounts due to credit institutions	986,592	591,837	1,138,927	928,615	1,216,722
Income tax liabilities:					
- current	130	78	4,251	574	779
- deferred	23,853	14,309	30,901	24,661	23,615
Provisions	8	5	4,407	2,126	4,263
Other liabilities	132,475	79,468	106,787	85,906	101,550
Total liabilities	**3,371,563**	**2,022,533**	**3,311,581**	**2,315,012**	**2,540,058**
Equity					
Share capital	31,360	18,812	31,345	31,306	31,253
Additional paid-in capital	478,555	287,076	477,285	478,779	468,732
Treasury shares	(1,428)	(857)	(1,510)	(1,677)	(2,018)
Other reserves	28,063	16,834	26,816	24,387	26,201
Retained earnings	190,749	114,427	130,314	46,163	141,491
Total equity attributable to shareholders	**727,299**	**436,292**	**664,250**	**578,958**	**665,659**
Non-controlling interest	24,462	14,674	29,091	19,459	53,190
Total equity	**751,761**	**450,966**	**693,341**	**598,417**	**718,849**
Total liabilities and equity	**4,123,324**	**2,473,499**	**4,004,922**	**2,913,429**	**3,258,907**

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

Total Assets

As of 30 June 2011, the Group had total assets of GEL 4,123.3 million (US$2,473.5, million, as compared to total assets of GEL 4,004.9 million as of 31 December 2010. The GEL 118.4 million (or 3.0%) increase was primarily due to an increase in net loans to customers, net finance lease receivables and liquid assets, driven by the growth of amounts due to customers in line with the general improvement in the Georgian economy and market share gains by the Bank in Georgia.

The Group had total assets of GEL 4,004.9 million as of 31 December 2010 as compared to total assets of GEL 2,913.4 million as of 31 December 2009. This 37.5% increase was primarily due to the GEL 690.4 million, or 41.6%, increase in net loans to customers, GEL 253.7 million (or 70.9%) increase in cash and cash equivalents, GEL 51.8 million (or 80.2%) increase in amounts due from credit institutions, GEL 34.0 million (or 42.7%) increase in investment properties, GEL 27.1 million (or 56.2%) increase in other assets, GEL 26.2 million (or 9.7%) increase in investment securities, GEL 7.1 million (or 2.6%) increase in property and equipment, GEL 3.4 million (or 5.2%) increase in goodwill, GEL 2.7 million (or 13.9%) increase in other intangible assets GEL 5.2 million (or 28.8%) increase in prepayments and GEL 2.7 million (or 17.4%) increase in deferred tax assets, which was partially offset by the GEL 5.8 million (or 71.9%) decrease in current income tax assets, GEL 4.7 million (or 45.4%) decrease in investments in associates and GEL 2.5 million (or 14.7%) decrease in net finance lease receivables. The increase in gross loans to customers was due to an increase in demand as a result of the recovery in the Georgian economy starting from the second half of 2009. The increase in cash and cash equivalents was primarily due to an increase in current accounts with credit institutions and time deposits with credit institutions up to 90 days. The increase in amounts due from credit institutions was principally caused by an increase in obligatory reserves with central banks. The increase in investment property was primarily driven by foreclosed properties. The increase in other assets was mainly caused by an increase in accounts receivables and inventories, as a result of acquiring a controlling stake of Teliani Valley in 2010. The increase in investment securities was principally caused by the purchase of Ministry of Finance treasury bills and bonds and NBG certificates of deposits. The increase of goodwill and other intangible assets was driven by an increase in goodwill as a result of the Teliani Valley business combination and licences.

The Group had total assets of GEL 2,913.4 million as of 31 December 2009 as compared to total assets of GEL 3,258.9 million as of 31 December 2008. This 10.6% decrease was primarily due to the GEL 377.7 million (or 18.5%) decrease in net loans to customers, the GEL 68.5 million (or 51.0%) decrease in goodwill, the GEL 24.7 million (or 59.4%) decrease in net finance lease receivables, the GEL 14.1 million (or 41.9%) decrease in available-for-sale securities, the GEL 23.1 million (or 7.6%) decrease in property and equipment, the GEL 6.4 million (or 38.2%) decrease in investments in associates, the GEL 26.8 million (or 35.7%) decrease in other assets and the GEL 57.9 million (or 13.9%) decrease in cash and cash equivalents, which was partially offset by a GEL 226.4 million (or 990.8%) increase in investment securities held-to-maturity, a GEL 32.2 million (or 68.1%) increase in investment properties and a GEL 10.8 million (or 230.1%) increase in deferred income tax assets. The decrease in gross loans to customers was due to a decrease in demand as a result of the 2008 Conflict and the slowdown in the global and regional economy. The decrease in goodwill and other intangible assets was principally due to a write down of the entire goodwill associated with BG Bank. The decrease in finance lease receivables was due to buy-out of leased assets. The decrease in available-for-sale securities was principally due to the disposal of corporate bonds (GEL 3.8 million) and shares (GEL 8.3 million) in 2009. The decrease in property and equipment was due to transfers to investment properties in the amount of GEL 6.4 million. The decrease in other assets was due to a significant slowdown of trading and brokerage operations in the Bank's brokerage subsidiaries in Ukraine and Cyprus and the decrease in cash and cash equivalents was due to a decrease in Time deposits with credit institutions up to 90 days. The increase in investment securities held to maturity was principally due to the purchase of GEL 144.1 million Georgian Ministry of Finance Treasury bills and bonds and the purchase of GEL 90.3 million NBG certificates of deposits in 2009, the decrease in investments in associates was primarily due to GEL 2.6 million net share of loss of associates and GEL 2.2 million impairment, and the increase in deferred income tax assets was due to large current tax losses in Georgia carried forward for tax regulation purposes.

71.3% of gross loans to customers were denominated in foreign currency (mainly US Dollars) as at 30 June 2011 and, as a result, any US Dollars/Lari exchange rate fluctuation causes increases and decreases in the value of gross loans to customers and therefore to total assets. Due to the Lari devaluation by 5.2% against US$ Dollars between 2009 and 2010, net loans in Lari terms increased by GEL 89.6 million (or 5.4%) between 2009 and 2010 and due to the Lari devaluation by 1.1% against US Dollars between 2008 and 2009, net loans in Lari terms increased by GEL 14.7 million (or 0.7%) between 2008 and 2009.

Total Liabilities

As of 30 June 2011, the Group had total liabilities of GEL 3,371.6 million (US$2,022.5 million) as compared to total liabilities of GEL 3,311.6 million as of 31 December 2010. The GEL 60.0 million (or 1.8%) increase was primarily due to an increase in amounts due to customers reflecting the improved economic environment and consumer confidence in Georgia after the 2008 Conflict and global crisis.

As of 31 December 2010, the Group had total liabilities of GEL 3,311.6 million, as compared to GEL 2,315.0 million as of 31 December 2009 and GEL 2,540.1 million as of 31 December 2008. The GEL 996.6 million (or 43.0%) increase in total liabilities from 31 December 2009 to 31 December 2010 was primarily due to the GEL 753.2 million (or 59.2%) increase in amounts due to customers as a result of further growth of the Georgian economy and increased business activity, the GEL 210.3 million (or 22.6%) increase in amounts due to credit institutions as a result of the draw-down of borrowed funds from international credit institutions and increased repurchase operations with the National Bank of Georgia and the GEL 20.9 million (or 24.3%) increase in other liabilities, mainly as a result of the GEL 10.1 million (or 134.9%) increase in derivative financial liabilities and the GEL 10.8 million (or 13.8%) increase in all accruals and creditors. The 8.9% decrease in total liabilities from 31 December 2008 to 31 December 2009 was principally due to the GEL 288.1 million (or 23.7%) decrease in amounts due to credit institutions as a result of repayment of borrowed funds from international credit institutions and the GEL 15.6 million (or 15.4%) decrease in other liabilities, mainly as a result of a GEL 14.0 million (or 31.7%) decrease in insurance contracts liabilities, which was partially offset by a GEL 80.0 million (or 6.7%) increase in amounts due to customers as a result of increased inflows of customer deposits in the second half of the year as the Georgian economy showed signs of improvement.

Shareholders' Equity

As of 30 June 2011, the Group had shareholders' equity of GEL 751.8 million (US$451.0 million), as compared to shareholders' equity of GEL 693.3 million as of 31 December 2010. The GEL 58.4 million (or 8.4%) increase in shareholders' equity was primarily due to increased retained earnings by GEL 60.4 million (US$36.3 million), of which GEL 63.7 million was attributable to the Group's net profit for the six months ended 30 June 2011.

Total shareholders' equity of the Group amounted to GEL 693.3 million (17.3% of total assets) as of 31 December 2010, GEL 598.4 million (20.5% of total assets) as of 31 December 2009 and GEL 718.8 million (22.1% of total assets) as of 31 December 2008. The 15.9% increase in total shareholders' equity from 31 December 2009 to 31 December 2010 was the result of an increase in retained earnings from GEL 46.2 million to GEL 130.3 million and an increase in non-controlling interest from GEL 19.5 million to GEL 29.1 million. The 16.8% decrease in total shareholders' equity from 31 December 2008 to 31 December 2009 was principally the result of a decrease in retained earnings from GEL 141.5 million as of 31 December 2008 to GEL 46.2 million as of 31 December 2009 and a decrease in non-controlling interest from GEL 53.2 million as of 31 December 2008 to GEL 19.5 million as of 31 December 2009, as a result of the disposal of 19.99% of the Group's shares in BNB to IFC and the exit of minority shareholders of SBRE.

Cash Flows

The following table summarises the Group's cash flows for the six months ended 30 June 2011 and 30 June 2010 and for the years ended 31 December 2010, 2009 and 2008.

	For the six months ended 30 June			For the years ended 31 December		
	2011		2010	2010	2009	2008
	(audited)		*(unaudited)*		*(audited)*	
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Net cash flows (used in) from operating activities	**(138,177)**	**(82,890)**	**163,809**	**309,339**	**196,203**	**(209,218)**
Cash flows from investing activities						
Acquisition of subsidiaries, net of cash acquired	—	—	296	(139)	(2,970)	(41,740)
Proceeds from sale of subsidiary	8,747	5,247	—	—	—	—
Proceeds from sale of investment securities: available-for-sale	—	—	—	1,518	25,323	166,175
Purchase of investment securities: available-for-sale	(105,091)	(63,042)	(17,346)	—	—	—
Purchase of investment securities: held-to-maturity	—	—	(19,042)	(28,769)	(226,804)	—
Proceeds from sale of investments in associates	332	199	2,003	—	24	860
Purchase of investments in associates	—	—	—	—	—	(13,355)
Purchase of investment properties	—	—	(16,868)	—	(495)	(12,613)
Proceeds from sale of investment properties	400	240	—	5,490	755	—
Proceeds from sale of property and equipment and intangible assets	—	—	—	13,312	3,404	—
Purchase of property and equipment and intangible assets	(34,626)	(20,771)	(18,799)	(41,839)	(27,928)	(122,881)
Net cash flows used in investing activities	**(130,238)**	**(78,127)**	**(69,756)**	**(50,427)**	**(228,691)**	**(23,554)**
Cash flows from financing activities						
Proceeds from increase in share capital	—	—	—	—	306	150,594
Purchase of treasury shares	(19,881)	(11,926)	(3,764)	(17,986)	(4,159)	(8,505)
Sale of treasury shares	19,018	11,409	3,276	7,552	1,796	5,800
Purchase of additional interests by non-controlling shareholders	—	—	—	11,973	(1,479)	31,278
Purchase of additional interests in existing subsidiaries, net of cash acquired	—	—	(6,249)	(6,854)	(24,730)	—
Net cash flows (used in) from financing activities	**(863)**	**(517)**	**(6,737)**	**(5,315)**	**(28,266)**	**179,167**
Effect of exchange rates changes on cash and cash equivalents	(3,898)	(2,338)	5,487	98	2,822	5,602
Net (decrease) increase in cash and cash equivalents	**(273,176)**	**(163,872)**	**92,803**	**253,695**	**(57,932)**	**(48,003)**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

Net Cash Flows (Used in) from Operating Activities

Net cash flows used in operating activities were GEL 138.2 million for the six months ended 30 June 2011 compared to net cash flows from operating activities of GEL 163.8 million for the six months ended 30 June 2010. This change was primarily a result of the repayment of borrowings from international credit institutions.

Net cash flows from operating activities were GEL 309.3 million in 2010, as compared to net cash flows from operating activities of GEL 196.2 million in 2009 and net cash flows used in operating activities of GEL 209.2 million in 2008. The increase in net cash flows from operating activities during 2010 was due to the continued improvement in business activity and combined growth of GEL 963.5 million in amounts due to customers and credit institutions. The change to net cash flows from operating activities during 2009 was due to a recovery in the Georgian economy starting from the second half of 2009. The net cash flows used in operating activities in 2008 were caused by an outflow of customer deposits as a result of the 2008 Conflict and a deteriorating operating environment as a result of the financial crisis.

Net Cash Flows Used in Investing Activities

Net cash flows used in investment activities were GEL 130.2 million (US$78.1 million) for the six months ended 30 June 2011 and GEL 69.8 million for the six months ended 30 June 2010. The 86.7% increase between the periods was primarily a result of increased purchases of available-for-sale investment securities.

Net cash flows used in investing activities were GEL 50.4 million, GEL 228.7 million and GEL 23.6 million in 2010, 2009 and 2008, respectively. The 77.9% decrease from 2009 to 2010 was mostly due to the Bank reducing its purchases of held-to-maturity investment securities in 2010 as compared to 2009. The 170.9% increase from 2008 to 2009 was principally caused by purchases of held-to-maturity investment securities with a total value of GEL 226.8 million.

In 2010, 2009 and 2008, respectively, the Group had cash outflows of GEL 41.8 million, GEL 27.9 million and GEL 122.9 million, on purchases of property and equipment and intangible assets.

Cash Flows (Used in) from Financing Activities

Net cash flows used in financing activities were GEL 0.9 million in the six months ended 30 June 2011. Net cash flows used in financing activities were GEL 6.7 million in the six months ended 30 June 2010, primarily due to the purchase of additional interests in existing subsidiaries.

Net cash flows used in financing activities were GEL 5.3 million and GEL 28.3 million in 2010 and 2009, respectively, while net cash flows from financing activities comprised GEL 179.2 million in 2008.

The value of net cash flows used in financing activities in 2010 was primarily attributable to the purchase of treasury shares and additional interests in existing subsidiaries, net of cash acquired. Net cash flows used in financing activities in 2009 were attributable to the purchase of additional interests in existing subsidiaries. Net cash flows from financing activities in 2008 were primarily attributable to proceeds from the issue of share capital of GEL 150.6 million and the purchase of additional interests by non-controlling shareholders.

Off-Balance Sheet Arrangements

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

Commitments and Contingencies

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

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of US Dollars)*[(1)]	*(audited) (thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Guarantees	388,108	232,818	374,230	240,613	304,906
Letters of credit	56,043	33,619	58,779	30,038	32,547
Undrawn loan commitments	120,410	72,232	138,057	76,999	90,023
Total credit related commitments	**564,561**	**338,669**	**571,066**	**347,650**	**427,476**
Operating lease commitments	23,076	13,843	27,037	26,174	24,699
Capital expenditure commitments	29,845	17,903	39,523	9,309	19,851
Provisions	(8)	(5)	(4,407)	(2,126)	(4,263)
Cash held as security against letters of credit and guarantees	(25,016)	(15,007)	(20,336)	(56,758)	(70,441)
Total financial commitments and contingencies, net	**592,458**	**355,403**	**612,883**	**324,249**	**397,322**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

The outstanding contractual amount of any guarantee or letter of credit does not necessarily represent future cash requirements, as many of these commitments may expire or terminate without needing to be funded.

In addition, as of 30 June 2011 the Group had a total of GEL 113.8 million (US$68.3 million) in committed but undrawn credit facilities from various international credit institutions. The Group needs to comply with various conditions precedent in respect of most of its undrawn credit facilities and, at its own discretion, the Group can choose not to drawdown most of its undrawn credit facilities.

Net financial commitments and contingencies of the Group as of 30 June 2011 and as of 31 December 2010, 2009 and 2008, were GEL 592.5 million (US$355.4 million), GEL 612.9 million, GEL 324.2 million and GEL 397.3 million, respectively. Net financial commitments and contingencies decreased by 3.3% between 31 December 2010 and 30 June 2011 due to a decrease in undrawn loan commitments, operating lease commitments and capital expenditure commitments and an increase in cash held as security against letters of credit and guarantees. The decrease was partially offset by an increase in guarantees and a decrease in provisions. Net financial commitments and contingencies increased by 89.0% between 31 December 2010 and 31 December 2009 due to an increase in practically all commitments, as well as a decline in cash held as security against letters of credit and guarantees. Net financial commitments and contingencies decreased by 18.4% between 31 December 2009 and 31 December 2008 due to the decrease in issued guarantees, decrease in undrawn loan commitments and decrease in capital expenditure commitments.

Capital Expenditure Commitments

As of 30 June 2011, the Group's capital expenditure comprised the commitment for purchase of property and capital repairs of GEL 21.3 million and software and other intangible assets of GEL 8.5 million. As of 31 December 2010, the Group's capital expenditure comprised the commitment for purchase of property and capital repairs of GEL 32.3 million and software and other intangible assets of GEL 7.2 million. As of 31 December 2009, the Group's capital expenditure comprised the commitment for purchase of property and capital repairs of GEL 1.5 million and software and other intangible assets of GEL 7.8 million. As of 31 December 2008, the Group's capital expenditure comprised the commitment for purchase of property GEL 2.2 million, equipment of GEL 4.7 million and software and other intangible assets of GEL 13.0 million.

Maturity Analysis of the Group's Financial Assets and Liabilities

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

	As of 30 June 2011			As of 31 December 2010		
	Within one year	More than one year	Total	Within one year	More than one year	Total
			(audited) *(thousands of Lari)*			
Financial assets						
Cash and cash equivalents	338,408	—	338,408	611,584	—	611,584
Amounts due from credit institutions	294,053	14,014	308,067	107,707	8,762	116,469
Loans to customers, net	1,212,785	1,162,325	2,375,110	1,191,914	1,159,783	2,351,697
Finance lease receivables	16,576	48,215	64,791	8,828	5,591	14,419
Investment securities[1]:						
- available-for-sale	306,639	97,678	404,317	242,535	52,405	294,940
- held-to-maturity	—	21	21	21	—	21
Total	**2,168,461**	**1,322,253**	**3,490,714**	**2,162,589**	**1,226,541**	**3,389,130**
Financial liabilities						
Amounts due to customers	2,089,664	138,841	2,228,505	1,881,371	144,937	2,026,308
Amounts due to credit institutions	351,798	634,794	986,592	193,386	945,541	1,138,927
Total	**2,441,462**	**773,635**	**3,215,097**	**2,074,757**	**1,090,478**	**3,165,235**
Net	**(273,001)**	**548,618**	**275,617**	**87,832**	**136,063**	**223,895**

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

	As of 31 December 2009			As of 31 December 2008		
	Within one year	More than one year	Total	Within one year	More than one year	Total
			(audited) *(thousands of Lari)*			
Financial assets						
Cash and cash equivalents	357,889	—	357,889	415,821	—	415,821
Amounts due from credit institutions	60,121	4,499	64,620	68,975	12,428	81,403
Loans to customers	655,906	1,005,425	1,661,331	897,167	1,141,855	2,039,022
Finance lease receivables	12,466	4,430	16,896	33,375	8,230	41,605
Investment securities[1]:						
- available-for-sale	19,590	—	19,590	33,737	—	33,737
- held-to-maturity	249,196	—	249,196	22,845	—	22,845
Total	**1,355,168**	**1,014,354**	**2,369,522**	**1,471,920**	**1,162,513**	**2,634,433**
Financial liabilities						
Amounts due to customers	1,198,357	74,773	1,273,130	1,124,603	68,526	1,193,129
Amounts due to credit institutions	37,866	890,749	928,615	402,094	814,628	1,216,722
Total	**1,236,223**	**965,522**	**2,201,745**	**1,526,697**	**883,154**	**2,409,851**
Net	**118,945**	**48,832**	**167,777**	**(54,777)**	**279,359**	**224,582**

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

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

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

The table below summarises the maturity profile of the Group's financial liabilities as of 30 June 2011 and 31 December 2010, 2009 and 2008 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
			(audited) *(thousands of Lari)*		
Financial Liabilities					
As of 30 June 2011					
Amounts due to customers	1,503,630	649,274	165,169	12,556	2,330,629
Amounts due to credit institutions	223,776	200,684	480,795	432,095	1,337,350
Other liabilities	31,000	28,188	25,433	5,566	90,187
Total undiscounted financial liabilities	**1,758,406**	**878,146**	**671,397**	**450,217**	**3,758,166**
As of 31 December 2010					
Amounts due to customers	1,394,442	528,346	153,963	8,859	2,085,610
Amounts due to credit institutions	151,404	145,753	780,504	530,547	1,608,208
Other liabilities	8,049	33,571	15,649	4,949	62,218
Total undiscounted financial liabilities	**1,553,895**	**707,670**	**950,116**	**544,355**	**3,756,036**
As of 31 December 2009					
Amounts due to customers	899,697	333,374	83,097	7,624	1,323,792
Amounts due to credit institutions	76,468	86,724	726,243	511,713	1,401,148
Other liabilities	18,079	22,921	7,468	3,856	52,324
Total undiscounted financial liabilities	**994,244**	**443,019**	**816,808**	**523,193**	**2,777,264**
As of 31 December 2008					
Amounts due to customers	869,050	266,417	74,947	4,712	1,215,126
Amounts due to credit institutions	291,471	131,625	922,928	259,148	1,605,172
Other liabilities	1,373	85	5	—	1,463
Total undiscounted financial liabilities	**1,161,894**	**398,127**	**997,880**	**263,860**	**2,821,761**

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

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
			(audited) *(thousands of Lari)*		
As of 30 June 2011	193,094	343,793	65,698	14,897	617,482
As of 31 December 2010	245,684	290,662	76,464	24,816	637,626
As of 31 December 2009	98,735	108,050	149,063	27,285	383,133
As of 31 December 2008	187,311	94,245	166,843	23,627	472,026

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

Capital Adequacy

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

The Bank is required to comply with the NBG's capital adequacy requirements.

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

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(audited) (thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Ordinary shares	30,058	18,031	29,970	31,276	31,235
Share premium	467,919	280,695	466,895	470,463	466,924
Retained earnings	74,738	44,834	37,054	71,014	101,926
Intangible assets	(42,710)	(25,621)	(39,791)	(37,326)	(26,938)
Tier I capital	**530,005**	**317,939**	**494,128**	**535,427**	**573,147**
Current year profit (loss)	36,988	22,188	133,737	(24,395)	(30,128)
General loan loss provisions	46,139	27,678	42,588	26,411	35,495
Subordinated debt	265,003	158,970	247,064	267,713	157,535
Tier II capital	**348,130**	**208,836**	**423,389**	**269,729**	**162,902**
Deductions from capital	(180,994)	(108,575)	(367,418)	(347,853)	(269,427)
Total capital	**697,141**	**418,200**	**550,099**	**457,303**	**466,622**
Risk-weighted assets	**4,606,121**	**2,763,120**	**3,800,624**	**2,717,084**	**3,458,133**
Capital adequacy ratios Tier I ratio	**11.5%**	**11.5%**	**13.0%**	**19.7%**	**16.6%**
Total capital ratio	**15.1%**	**15.1%**	**14.5%**	**16.8%**	**13.5%**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

The following table sets out an analysis of the Group's regulatory capital on a consolidated basis under Basel I as of the dates indicated.

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(audited) (thousands of Lari)*	*(thousands of Lari)*	
Ordinary shares	31,360	18,812	31,345	31,306	31,253
Share premium	478,555	287,076	477,285	478,779	468,732
Retained earnings	190,848	114,486	129,341	38,625	137,768
Tier I capital	**700,763**	**420,374**	**637,971**	**548,710**	**637,753**
General loan loss provisions	48,403	29,036	45,666	27,301	32,662
Revaluation reserves	28,063	16,834	26,816	24,387	26,201
Subordinated debt	313,522	188,076	332,306	317,791	157,535
Undisclosed reserves	—	—	—	—	56,913
Tier II capital	**389,988**	**233,946**	**404,788**	**369,479**	**273,311**
Deductions from capital	(57,640)	(34,577)	(70,722)	(67,454)	(134,238)
Total capital	**1,033,111**	**619,743**	**972,037**	**850,735**	**776,826**
Risk-weighted assets	**3,872,251**	**2,322,886**	**3,653,247**	**2,454,767**	**2,950,653**
Capital adequacy ratios Tier I ratio	**18.1%**	**18.1%**	**17.5%**	**22.4%**	**21.6%**
Total capital ratio	**26.7%**	**26.7%**	**26.6%**	**34.7%**	**26.3%**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

There are several differences between the NBG capital adequacy ratio methodology and the Basel I capital adequacy ratio methodology. The most significant of such differences include: (i) for purposes of calculating the NBG ratio, a 175% total risk weighting (including both credit risk and market risk) is applied to loans denominated in foreign currency, unless the borrower's principal source of income is from exports (the 175% risk weighting requirement was raised by the NBG starting from January 2011[1]); (ii) for purposes of calculating the NBG ratio, investments, except for ownership interests of 50.0% or more in subsidiaries, are weighted at 100% whereas, under Basel I methodology, investments in financial services companies are weighted at 0% and other investments are weighted at 100%; and (iii) as the NBG requires Georgian banks to calculate regulatory capital on a standalone basis, all investments in subsidiaries where the bank holds more than a 50% equity interest are deducted from Tier II capital; (iv) the revaluation reserve is included in total capital for purposes of the Basel I ratio but not for purposes of the NBG ratio; and (v) the retained earnings and current year profit (loss) included in the NBG capital adequacy ratio are based on NBG accounting rules (the main difference between these accounting rules and IFRS being the provisions for loan losses and other credit risks), while the retained earnings included in the Basel I capital adequacy ratio are based on IFRS. Risk-weighted assets, Tier I capital and Total regulatory capital in accordance with the NBG's methodology were GEL 4.6 billion (US$2.8 billion), GEL 530.0 million (US$317.9 million) and GEL 697.1 million (US$418.2 million), respectively, as of 30 June 2011.

The NBG requires Georgian banks to maintain a total capital adequacy ratio of 12% and a Tier I capital adequacy ratio of 8% on a stand-alone basis. As of 30 June 2011, on a stand-alone basis the Bank's total capital adequacy ratio calculated in accordance with the NBG's methodology was 15.1%, and the Bank's Tier I capital adequacy ratio was 11.5%. The Bank was in compliance with the NBG's capital adequacy ratio requirements as of 30 June 2011.

A subsidiary of the Group, BNB, is licensed by the NBRB and is required to comply with certain capital adequacy ratios and minimum share capital requirements set by the NBRB. Although BNB has the minimum level of regulatory capital required by NBRB to conduct banking operations in Belarus (the minimum level for this purpose is set at the equivalent of €5 million and, as of 30 June 2011, the regulatory capital of BNB was €12.2 million), BNB has not had the minimum level of regulatory capital required by NBRB in order to hold retail deposits (set at the equivalent of €25 million for this purpose) since May 2011. BNB has received a temporary waiver effective until 1 January 2013 in respect of this breach. The Group is currently considering obtaining subordinated funding, or other sources of funding, to enable BNB to meet the minimum level of regulatory capital required for retail deposit taking. If such funding is not available on commercially attractive terms, BNB may choose to discontinue its retail deposit taking business in Belarus (which the BGH Directors do not consider to be material, given that BNB's total retail deposits accounted for 0.4% of the Group's total deposits and 0.3% of total liabilities as of 30 June 2011). For further, see Part II "Risk Factors —Additional Risks Arising Principally from the Group's Banking Activities — The Group is subject to certain regulatory ratios" and "Risk Factors — Risks Relating to the Group's Lending Activities — Currency fluctuations have affected, and may continue to affect, the Group".

Selected Significant Accounting Policies, Judgments and Estimates

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

Fair Value of Financial Instruments

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

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

Determination of Collateral value

Management monitors market value of collateral on a regular basis. Management uses its experienced judgment or independent opinion to adjust the fair value to reflect current circumstances. The amount and type of collateral required depends on the assessment of credit risk of the counterparty.

Measurement of Fair Value of Investment Properties and Property and Equipment

Fair value of investment properties as well as at the property and equipment is determined by independent professionally-qualified appraisers. Fair value is determined using the combination of internal capitalisation method (also known as discounted future cash flow method) and sales comparison method.

Allowance for Impairment of Loans and Receivables and Finance lease Receivables

The Group regularly reviews its loans and receivables and finance lease receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Contingent Liabilities

The Group is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Group considers the likelihood of the loss or the incurrence of a liability as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimate loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Group regularly evaluates current information available to determine whether such accruals are required. As of 30 June 2011, the Group did not record any contingent liabilities.

Impairment of Goodwill

The Group determines whether goodwill is impaired on at least an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Impairment of Long-Lived Assets

Long-lived assets consist primarily of real estate investments, property, investments in associates, goodwill and intangible assets. The Group evaluates the long-lived assets for impairment annually or when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable.

Impairment of Investments

The Group holds investments in several companies, including those that do not trade in an active market. Future adverse changes in market conditions or poor operating results could result in losses that may not be reflected in an investment's current carrying value, thereby requiring an impairment charge in the future. The Group regularly reviews its investments to determine if there have been any indicators that the value may be impaired. These reviews require estimating the outcome of future events and determining whether factors exist that indicate impairment has occurred.

PART XI

SELECTED STATISTICAL AND OTHER INFORMATION

Certain information included in this section has been extracted without material adjustment from the Audited Financial Statements included elsewhere in this Prospectus. Existing Holders should read this information in conjunction with Part X "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Audited Financial Statements.

The Bank's Weighted Average Effective Annual Interest Rates

The following table represents the Bank's weighted average effective annual interest rates, analyzed by currencies of denomination, for the Bank's principal stand-alone categories of interest-earning assets and interest-bearing liabilities, for the periods indicated.

	For the six months ended 30 June		For the years ended 31 December					
	2011		2010		2009		2008	
	GEL	Foreign currencies	GEL	Foreign currencies	GEL	Foreign currencies	GEL	Foreign currencies
		(unaudited)						
Assets:								
Amounts due from credit institutions	13.5%	1.2%	7.4%	1.1%	6.7%	1.3%	12.6%	4.7%
Investment securities:								
- held to maturity	—	—	8.0%	—	7.1%	—	15.0%	9.8%
- available-for-sale	10.5%	—	8.0%	—	—	—	—	—
Loans to customers	24.9%	15.0%	24.1%	17.5%	24.6%	17.2%	24.3%	16.0%
Liabilities:								
Amounts due to credit institutions	6.1%	8.8%	6.4%	9.3%	13.4%	7.5%	12.0%	9.7%
Amounts due to customers	8.0%	7.3%	6.3%	7.9%	7.9%	8.8%	6.7%	7.0%

Deposits and Other Liabilities by Maturity

The following table sets forth an analysis of the Group's total amounts due to customers, amounts due to credit institutions and all other liabilities by maturity, as of the dates indicated.

	As of 30 June		As of 31 December		
	2010		2009	2008	2011
	(thousands of Lari)	(thousands of U.S. Dollars)[1]	(unaudited) (thousands of Lari)	(thousands of Lari)	(thousands of Lari)
Three months or less	1,335,616	801,209	1,249,627	755,801	727,756
More than three months, but less than or equal to one year	754,048	452,339	631,744	442,556	396,847
More than one year	138,841	83,288	144,937	74,773	68,526
Total amounts due to customers	**2,228,505**	**1,336,836**	**2,026,308**	**1,273,130**	**1,193,129**
Amounts due to credit institutions,	986,592	591,837	1,138,927	928,615	1,216,722
Other liabilities (maturity undefined)	156,466	93,861	146,346	113,267	130,207
Total liabilities	**3,371,563**	**2,022,534**	**3,311,581**	**2,315,012**	**2,540,058**

Notes:

(1) Converted into U.S. Dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. Dollar exchange rate as reported by the NBG on 30 June 2011.

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

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(unaudited)		*(audited)*		
	(thousands of Lari)	*(thousands of U.S. Dollars)*(1)	*(thousands of Lari)*	*(thousands of Lari)*	
Short-term(2)	2,441,462	1,464,584	2,074,757	1,236,223	1,526,697
Long-term(3)	773,635	464,088	1,090,478	965,522	883,154
Total amounts due to credit institutions, amounts due to customers and other financial liabilities	**3,215,097**	**1,928,672**	**3,165,235**	**2,201,745**	**2,409,851**

Notes:

(1) Converted into U.S. Dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. Dollar exchange rate as reported by the NBG on 30 June 2011.

(2) "Short-term" means due within one year of the relevant date.

(3) "Long-term" means due after more than one year from the relevant date.

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		(unaudited)		
Short-term(1)	75.9%	65.5%	56.1%	63.4%
Long-term(2)	24.1%	34.5%	43.9%	36.6%
Total amounts due to credit institutions, amounts due to customers and other financial liabilities	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Notes:

(1) "Short-term" means due within one year of the relevant date.

(2) "Long-term" means due after more than one year from the relevant date.

Deposits and Other Liabilities by Currency

The following table sets out Group's amounts due to credit institutions, amounts due to customers, all other liabilities and total liabilities in Lari and foreign currency as of the dates indicated.

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
			(unaudited)		
	(thousands of Lari)	*(thousands of U.S. Dollars)*(1)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Amounts due to credit institutions:					
Lari	154,893	92,917	146,133	12,766	74,294
Foreign currency	831,699	498,920	992,794	915,849	1,142,428
Total amounts due to credit institutions	**986,592**	**591,837**	**1,138,927**	**928,615**	**1,216,722**
Amounts due to customers:					
Lari	760,568	456,250	565,932	385,458	353,233
Foreign currency	1,467,937	880,586	1,460,376	887,672	839,896
Total amounts due to customers	**2,228,505**	**1,336,836**	**2,026,308**	**1,273,130**	**1,193,129**
All other liabilities:					
Lari	55,383	33,223	68,646	60,698	52,556
Foreign currency	101,083	60,638	77,700	52,569	77,651
Total all other liabilities	**156,466**	**93,861**	**146,346**	**113,267**	**130,207**
Total liabilities	**3,371,563**	**2,022,534**	**3,311,581**	**2,315,012**	**2,540,058**

Notes:

(1) Converted into U.S. Dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. Dollar exchange rate as reported by the NBG on 30 June 2011.

The following table sets out the Group's total liabilities in Lari and foreign currency, each as a percentage of total liabilities.

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		(unaudited) *(in percentages)*		
Lari	28.8%	23.6%	19.8%	18.9%
Foreign currency	71.2%	76.4%	80.2%	81.1%
Total liabilities	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The following table sets out the Group's total gross loans to retail and private banking customers by underlying currency as of the dates indicated.

	As of 30 June		As of 31 December					
	2011		2010		2009		2008	
	Amount	Percentage of Total Retail and Private Banking Loans	Amount	Percentage of Total Retail and Private Banking Loans	Amount	Percentage of Total Retail and Private Banking Loans	Amount	Percentage of Total Retail and Private Banking Loans
			(unaudited) *(thousands of Lari, except percentages)*					
GEL	494,895	43.6%	391,814	35.5%	190,237	21.4%	309,717	28.1%
U.S.$	586,535	51.7%	628,342	57.0%	662,024	74.6%	732,404	66.5%
Euros	15,504	1.4%	15,086	1.4%	16,097	1.8%	22,906	2.1%
GBP	57	0.0%	137	0.0%	127	0.0%	11	0.0%
UAH	—	—	16,445	1.5%	7,262	0.8%	18,089	1.7%
BYR	36,963	3.3%	50,859	4.6%	12,256	1.4%	17,537	1.6%
Total loans to retail banking and private banking customers, gross	**1,133,954**	**100.0%**	**1,102,683**	**100.0%**	**888,003**	**100.0%**	**1,100,664**	**100.0%**

Investment Portfolio

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

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of U.S. Dollars)*[1]	*(unaudited)* *(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Ministry of Finance Treasury Bills	100,789	60,461	128,539	4,044	5,266
Certificates of deposit of central banks	188,300	112,957	104,969	—	—
Ministry of Finance treasury bonds	102,962	61,765	52,120	—	—
Corporate shares	12,266	7,358	11,294	13,418	21,723
Corporate bonds	—	—	—	2,946	6,748
Less — allowance for impairment	—	—	(1,982)	(818)	—
Available-for-sale securities	**404,317**	**242,541**	**294,940**	**19,590**	**33,737**

Notes:

(1) Converted into U.S. Dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. Dollar exchange rate as reported by the NBG on 30 June 2011.

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

	As of 30 June				As of 31 December			
	2011		2010		2009		2008	
	%	Maturity	%	Maturity	%	Maturity	%	Maturity
	(audited)		*(unaudited)*		*(audited)*			
Ministry of Finance Treasury Bills	11.08%	1 year	10.03%	1 year	9.50%	1-2 years	11.95%	1-3 years
Certificates of deposit of central banks	9.04%	1 year	9.98%	1 year	—	—	—	—
Ministry of Finance treasury bonds	14.43%	1-2 years	15.32%	1-2 years	—	—	—	—
Corporate Bonds	—	—	—	—	19.76%	1-2 years	14.41%	1-3 years

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

	As of 30 June				As of 31 December			
	2011		2010		2009		2008	
	Carrying value	Nominal value	Carrying value	Nominal value	Carrying value	Nominal value	Carrying value	Nominal value
	(audited)		*(unaudited)*		*(audited)*			
	(thousands of Lari)							
Ministry of Finance Treasury Bills	—	—	—	—	144,053	149,124	—	—
Certificates of Deposits of Central Banks	—	—	—	—	105,143	105,624	14,826	15,000
State debt securities	—	—	—	—	—	—	8,019	8,047
Corporate Bonds	21	20	21	20	—	—	—	—
Held-to-maturity securities	**21**	**20**	**21**	**20**	**249,196**	**254,748**	**22,845**	**23,047**

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

	As of 30 June				As of 31 December			
	2011		2010		2009		2008	
	%	Maturity	%	Maturity	%	Maturity	%	Maturity
	(audited)		*(unaudited)*		*(audited)*			
Ministry of Finance Treasury Bills	—	—	—	—	6.3	2010	—	—
Corporate Bonds	15.0	2012	10.0	2011	—	—	—	—
Certificates of Deposits of Central Banks	—	—	—	—	3.1	2010	11.8	2009
State debt securities	—	—	—	—	—	—	13.0	2009

Loan Portfolio

As of 30 June 2011 and as of 31 December 2010, 2009 and 2008, the Group had GEL 2,375.1 million, GEL 2,351.7 million, GEL 1,661.3 million and GEL 2,039.0 million, respectively, in loans to customers (net of allowance for impairment losses), representing 57.6%, 58.7%, 57.0% and 62.6% of the Group's total assets, respectively.

Loans to Customers by Type of Customer

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

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
			(audited)		
	(thousands of Lari)	*(thousands of US Dollars)*(1)	*(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Individuals	1,010,565	606,218	1,006,046	862,365	1,079,945
Private entities	1,450,557	870,160	1,488,577	934,494	1,029,008
State entities	35,686	21,407	32,610	30,958	36,670
Total loans to customers, gross	**2,496,808**	**1,497,785**	**2,527,233**	**1,827,817**	**2,145,623**

Notes:

(1) Converted into U.S. Dollars for convenience using an exchange rate of GEL 1.667 per U.S.$1.00, being the official Lari to U.S. Dollar exchange rate as reported by the NBG on 30 June 2011.

Collateralisation

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

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(unaudited) (thousands of Lari)*	*(thousands of Lari)*	*(thousands of US Dollars)*[1]
Loans secured by corporate guarantees	14,520	8,710	21,315	10,663	6,532
Loans collateralised by pledge of equipment	13,262	7,956	41,349	19,538	50,495
Loans collateralised by pledge of inventory	7,799	4,678	41,740	21,928	13,786
Other collateralised loans[2]	2,226,693	1,335,749	2,215,013	1,641,129	1,832,065
Unsecured loans	234,534	140,692	207,816	134,559	242,745
Total loans to customers, gross	**2,496,808**	**1,497,785**	**2,527,233**	**1,827,817**	**2,145,623**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

(2) Other collateralised loans comprise loans to customers collateralised by real estate and loans to customers collateralised by multiple types of (mixed) collateral.

Loans by Economic Sector

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

	As of 30 June		As of 31 December					
	2011		2010		2009		2008	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
			(audited) *(thousands of Lari, except percentages)*					
Individuals	1,010,565	40.5%	1,006,046	39.8%	862,365	47.2%	1,079,945	50.3%
Trade and services	867,454	34.7%	858,878	34.0%	578,623	31.7%	667,557	31.1%
Construction and development	274,659	11.0%	274,623	10.9%	150,676	8.2%	158,702	7.4%
Mining	123,198	4.9%	137,583	5.4%	62,622	3.4%	34,526	1.6%
Transport and communication	90,149	3.6%	77,792	3.1%	81,532	4.5%	52,631	2.5%
Energy	58,360	2.3%	62,424	2.5%	11,667	0.6%	66,145	3.1%
Agriculture	10,959	0.4%	18,089	0.7%	13,730	0.8%	20,134	0.9%
Others[1]	61,464	2.6%	91,798	3.6%	66,602	3.6%	65,983	3.1%
Total loans to customers, gross	**2,496,808**	**100.0%**	**2,527,233**	**100.0%**	**1,827,817**	**100.0%**	**2,145,623**	**100.0%**

Notes:

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

Loans by Currency

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

	As of 30 June		As of 31 December					
	2011		2010		2009		2008	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(unaudited) (thousands of Lari, except percentages)							
GEL	715,753	28.7%	580,115	23.0%	368,423	20.2%	529,340	24.7%
Other currencies (freely convertible being USD, EUR and GBP)	1,743,368	69.8%	1,777,167	70.3%	1,348,724	73.8%	1,487,212	69.3%
Other currencies (non convertible)	37,687	1.5%	169,951	6.7%	110,670	6.0%	129,071	6.0%
Total loans to customers, gross	**2,496,808**	**100.0%**	**2,527,233**	**100.0%**	**1,827,817**	**100.0%**	**2,145,623**	**100.0%**

Loans by Maturity

The following table sets out the final contractual maturity structure (by expiry date) of the Group's total loans to customers (gross of allowance for impairment losses) based on the original contractual maturity (contract expiry date) of the outstanding loans, as of the dates indicated.

	As of 30 June		As of 31 December					
	2011		2010		2009		2008	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(unaudited) (thousands of Lari, except percentages)							
On demand and up to one month	73,329	2.9%	87,804	3.5%	68,844	3.8%	63,159	2.9%
One to three months	70,445	2.8%	145,016	5.7%	74,867	4.1%	62,739	2.9%
Three months to one year	1,143,566	45.8%	1,056,290	41.8%	617,727	33.8%	834,377	38.9%
More than one year	1,209,468	48.5%	1,238,123	49.0%	1,066,379	58.3%	1,185,348	55.3%
Total loans to customers, gross	**2,496,808**	**100.0%**	**2,527,233**	**100.0%**	**1,827,817**	**100.0%**	**2,145,623**	**100.0%**

As of 30 June 2011, loans due within one year or earlier represented 51.6% of the Group's customer loan portfolio (gross of allowance for impairment losses) compared with 51.0% as of 31 December 2010. As of 31 December 2009, loans due within one year or earlier represented 41.7% of the Group's customer loan portfolio (gross of allowance for impairment losses) compared to 44.8% as of 31 December 2008.

Geographical Concentration of Loans

The Group has a significant geographical concentration of loans issued to borrowers in one geographical region. The Group's gross loans to customers in the Tbilisi region represented 83.6%, 85.0%, 86.7% and 86.1% of the Group's total gross loan portfolio as of 30 June 2011 and 31 December 2010, 2009 and 2008, respectively.

Loans by Amount and Number of Borrowers

As of 30 June 2011 and 31 December 2010, 2009 and 2008, the exposure of the Group to its ten largest third-party borrowers amounted to GEL 383.7 million (U.S.$230.1 million), GEL 384.0 million, GEL 207.0 million and GEL 230.7 million, representing 15.4%, 15.2%, 11.3% and 10.8% of the Group's total loans to customers (in each case gross of allowance for impairment losses), respectively.

The following table sets out information on the Group's ten largest borrowers (net of allowance for impairment losses) as of 30 June 2011.

Rank by borrower exposure	Exposure size (net of allowance for impairment losses) *(Lari)*	Industry sector in which borrower operates
1	55,079	Mining and Mineral Processing
2	47,597	Mining and Mineral Processing
3	46,249	Construction Sector
4	42,839	Retail and Service Sector
5	36,794	Energy Sector
6	34,764	Retail and Service Sector
7	31,029	Construction Sector
8	30,673	Retail and Service Sector
9	26,305	Retail and Service Sector
10	24,249	Retail and Service Sector
Total	**375,578**	—

PART XII

FUNDING

The Group has a diverse funding base comprising short-term sources of funding (including retail and corporate customer deposits, time-deposits and inter-bank loans, borrowings from the central banks of Georgia, Ukraine and Belarus, including sale and repurchase operations with the NBG) and longer-term sources of funding (including borrowing from international credit institutions including IFIs, sale of securities and issuing debt securities). Bank of Georgia has issued promissory notes denominated in US Dollars, Lari and Azerbaijani Manat as well as loan pass through notes denominated in US Dollars. As of 30 June 2011, total amounts due to customers amounted to GEL 2,228.5 million (US$ 1,336.8 million) as compared to GEL 2,026.3 million, GEL 1,273.1 million and GEL 1,193.1 million as of 31 December 2010, 2009 and 2008, respectively. As of 30 June 2011, amounts due to credit institutions amounted to GEL 986.6 million (US$ 591.8 million) as compared to GEL 1,138.9 million, GEL 928.6 million and GEL 1,216.7 million as of 31 December 2010, 2009 and 2008, respectively. The Group's funding strategy is to continue to further diversify its funding sources and reduce its funding costs.

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

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(audited)* *(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Amounts Due to Credit Institutions					
Correspondent accounts	3,027	1,816	4,717	2,275	17,319
Time deposits and inter-bank loans	170,215	102,109	130,284	12,761	91,389
Borrowings from international credit institutions	813,350	487,912	1,003,926	913,579	1,108,014
Total amounts due to credit institutions	**986,592**	**591,837**	**1,138,927**	**928,615**	**1,216,722**
Amounts Due to Customers					
Time deposits	1,193,320	715,849	1,140,371	712,483	580,622
Current accounts	886,122	531,567	864,327	559,987	612,502
Promissory notes issued	149,063	89,420	21,610	660	5
Total amounts due to customers	**2,228,505**	**1,336,836**	**2,026,308**	**1,273,130**	**1,193,129**
Total income tax liabilities	23,983	14,387	35,152	25,235	24,394
Provisions	8	5	4,407	2,126	4,263
Total other liabilities	132,475	79,468	106,787	85,906	101,550
Total liabilities	**3,371,563**	**2,022,533**	**3,311,581**	**2,315,012**	**2,540,058**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

Amounts Due to Customers

Amounts due to customers include current accounts and time deposits from corporate customers and retail customers and promissory notes issued. Amounts due to customers increased to GEL 2,228.5 million (US$1,336.8 million) as of 30 June 2011 from GEL 2,026.3 million as of 31 December 2010, having increased from GEL 1,193.1 million as of 31 December 2008 to GEL 1,273.1 million as of 31 December 2009. As of 30 June 2011, amounts due to customers in the amount of GEL 504.3 million (US$302.5 million) (22.6% of total gross customer accounts) were attributable to the Group's ten largest deposit customers.

The Group accepts deposits in Lari and foreign currencies. As of 30 June 2011, 65.9% of the Group's total customer accounts were in foreign currencies.

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

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(unaudited) (thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Foreign currency deposits:					
Foreign currencies (freely convertible being primarily USD, EUR and GBP)	1,414,829	848,728	1,327,036	859,105	765,055
Other currencies (non convertible)	14,584	8,749	108,332	21,540	77,045
Total foreign currency deposits	**1,429,414**	**857,477**	**1,435,368**	**880,645**	**842,101**
Lari deposits	799,091	479,359	590,940	392,485	351,028
Total amounts due to customers	**2,228,505**	**1,336,836**	**2,026,308**	**1,273,130**	**1,193,129**

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

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

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(audited) (thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Individuals	888,764	533,152	894,312	637,789	495,747
Private enterprises	1,065,255	639,025	964,150	579,509	627,054
State and budgetary organisations	274,486	164,659	167,846	55,832	70,328
Total amounts due to customers	**2,228,505**	**1,336,836**	**2,026,308**	**1,273,130**	**1,193,129**

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

Since 1 January 2007, the Bank has completed several promissory notes offerings and placements. The following are the most significant of these promissory notes offerings and placements.

Between April and September 2008, the Bank raised GEL 63.9 million through the issuance of GEL-denominated promissory notes. The terms of the notes ranged from one to six months. All of these promissory notes were repaid as of 31 December 2008.

Between June and December 2010, the Bank raised US$12.0 million through the issuance of USD, GEL and AZN-denominated promissory notes. Each of these notes has a term of one year, and all of the notes will mature by the end of December 2011. As of 30 June 2011, US$2.3 million of the principal amount and accrued interest due under these promissory notes had been repaid and US$10.5 million remained outstanding.

Between February 2011 and June 2011, the Bank raised US$77.5 million through the issuance of USD, GEL and AZN-denominated promissory notes. The terms of the notes range from 3 to 13 months and all of the notes will mature by June 2012. As of 30 June 2011, US$77.5 million remained outstanding.

Amounts Due to Credit Institutions

Amounts due to credit institutions include current accounts and term deposits and inter-bank loans from the inter-bank market, which are used by the Group to manage its short-term liquidity needs, as well as borrowings from international credit institutions (including IFIs) as a source of long-term funding. As of 30 June 2011, total amounts due to credit institutions were GEL 986.6 million (US$591.8 million), representing 29.3% of the Group's total liabilities as of that date. Total amounts due to credit institutions were GEL 1,138.9 million, GEL 928.6 million and GEL 1,216.7 million as of 31 December 2010, 2009 and 2008, respectively.

As of 30 June 2011, 100% of borrowings from international credit institutions were denominated in US As of the same date, 14.9% of amounts due to credit institutions had a maturity of less than one year.

The following table lists the composition of total amounts due to credit institutions as of the dates indicated:

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(audited)* *(thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Correspondent accounts	3,027	1,816	4,717	2,275	17,319
Time deposits and inter-bank loans[2]	170,215	102,109	130,284	12,761	91,389
Borrowings from international credit institutions[3]	813,350	487,912	1,003,926	913,579	1,108,014
Total amounts due to credit institutions	**986,592**	**591,837**	**1,138,927**	**928,615**	**1,216,722**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

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

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

Since 1 January 2008, the Group has obtained a number of loans from credit institutions, including commercial banks and international financial institutions. The following are the most significant of these loans:

- In June 2008, the Bank obtained a US$30 million, 10-year subordinated loan from Nederlandse Financierings-Maatschappij voor ontwikkelingslanden N.V. (**"FMO"**) and Deutsche Investitions- und Entwicklungsgesellschaft mbH (**"DEG"**). As of 30 June 2011, the aggregate amount outstanding under this loan facility was US$30.0 million.

- In December 2008, the Bank obtained a US$29 million, 10-year senior mortgage facility and a US$10 million, 10-year subordinated loan facility from the Overseas Private Investment Corporation (**"OPIC"**). As of 30 June 2011, the aggregate amount outstanding under these loan facilities was US$34.2 million.

- In December 2008, the Bank signed agreements with IFC and EBRD relating to loan facilities in an aggregate amount of US$200 million, comprised of a separate US$100 million financing package on substantially the same terms from each of IFC and EBRD. The US$100 million financing package provided by each of IFC and EBRD is comprised of a US$50 million senior loan, a US$23.96 million subordinated loan and a US$26.04 million convertible subordinated loan (together, the **"2008 IFC and EBRD Loans"**). The subordinated loan carries a distress conversion option, whereby IFC and/or EBRD can convert their respective subordinated loans into ordinary shares in the Bank if both: (a) its convertible subordinated loan as described below has been fully disbursed and fully converted into shares; and (b) the Bank's Tier I Capital Adequacy ratio falls to a level below 0.5% above the NBG's regulatory minimum for a 30 day period or, in circumstances where the failure to maintain the ratio above this level results from a depreciation event (being a depreciation in the Lari against the US Dollar by more than 20% over a 30 day period) and the ratio falls to a level below 0.5% above the NBG's regulatory minimum for a 90 day period. If the "distressed conversion option" has become exercisable as a result of the depreciation event, the conversion right shall be limited to such amount as is necessary for the Bank to restore its Tier I capital adequacy ratio to 11%. In other circumstances, the "distressed conversion option" may be exercised to the full extent of the relevant subordinated loan. The conversion price per share is the Bank's net asset value per share as most recently reported to the NBG. The convertible subordinated loan may be converted into shares and/or global depository receipts of the Bank at the option of IFC or EBRD, as the case may be, as well as the Bank in certain circumstances. IFC and/or EBRD may convert their respective Convertible Subordinated Loans at any time until the end of 2013 into shares representing a combined shareholding of IFC and EBRD of up to 10% on a fully diluted basis of the then current issued share capital (in aggregate approximately 3.47 million ordinary shares) at the conversion price per ordinary share equal to the Bank's consolidated net asset value per ordinary share as of 31 December 2008. The conversion rights are also subject to certain anti-dilution provisions that entitle each of IFC and EBRD to subscribe for up to 255,528 additional shares at the market price per share at the time of conversion in the event that its shareholding on conversion would otherwise fall below 5% (for each of IFC and EBRD) of the Bank's total issued share capital at the time of conversion. The Bank has agreed to maintain a sufficient number of authorised but unissued shares to permit the conversion by IFC and EBRD of their respective Convertible Subordinated Loans. As of 30 June 2011, the aggregate amount outstanding under these loan facilities was US$182.2 million. In connection with the Offer and pursuant to the IFI Irrevocable Undertakings between the Bank, BGH and each of EBRD and IFC, each of EBRD and IFC has agreed, subject to certain terms and conditions, to convert part of their respective Convertible Subordinated Loans into a total of 1,817,503 Bank Shares each. For further, see Paragraph 5 ("EBRD and IFC Convertible Debt") of Part XXI "Additional Information"

- In August 2010, the Bank signed three agreements with EBRD relating to five-year loan facilities in an aggregate amount of US$50 million. The loan facilities can be drawn down by the Bank within 18 months of the signing of the agreements. As of 30 June 2011, the aggregate amount outstanding under these loan facilities was US$23.5 million.
- On 11 November 2010, the Bank entered into a framework agreement and two individual loan agreements with the European Fund for South East Europe (**"EFSE"**). The individual loan agreements related to two loan facilities in the aggregate amount of US$50.0 million for SME and housing financing. As of 30 June 2011, the aggregate amount outstanding under these loan facilities was US$49.5 million.
- On 1 December 2010, the Bank signed an agreement with the Asian Development Bank (**"ADB"**) relating to a five-year loan facility in the amount of US$50.0 million for SME financing. As of 30 June 2011, the aggregate amount outstanding under this loan facility was US$24.6 million.

Most of the foregoing US Dollar loans bear fixed or floating interest rates tied to LIBOR. Interest rates for the Bank's US Dollar borrowings (including subordinated facilities) in January through to June 2011 ranged from LIBOR plus 2.75% to 11.65% and in 2010, 2009 and 2008 ranged from LIBOR plus 1.3% to 11.65%.

In July 2009, the Bank and EBRD signed an amended and restated participation agreement, pursuant to which EBRD has made available an additional US$20 million co-financing for the Bank's corporate customers which may be used for term lending for a period of up to eight years as well as revolving credit lines for working capital needs. The original participation agreement was signed in June 2005 and provided financing in an aggregate amount of US$5.0 million. The facility enables EBRD to co-finance the Bank's corporate customers together with the Bank, without recourse to the Bank, fully bearing the Georgian corporate risk. As of 30 June 2011, the amount utilised under this loan facility was US$6.4 million.

As of the date of this Prospectus, the Bank has trade finance lines from EBRD (€36.0 million), IFC (US$20.0 million), ADB (US$39.0 million), Commerzbank (€12.0 million), Citibank N.A. (US$7.6 million), BNP Paribas (US$6.0 million), UBS (CHF 5.0 million), Ziraat Bank (US$9.0 million), JP Morgan (US$5.0 million) and Atlantic Forfaiting Company Ltd. (US$3.0 million).

Certain of the Bank's financing agreements with commercial banks and financial institutions (the **"Financing Agreements"**), as well as the 2012 Notes (as defined below) require the Bank's continuing compliance with certain financial covenants including, but not limited to, maintaining certain ratios with respect to capital adequacy, liquidity, foreign currency position, credit exposures and net loans to deposit ratio. Between 31 March 2010 and the end of December 2010, the Bank was in breach of a covenant to keep net non-performing loans (defined for these purposes as (i) the aggregate amount of all gross loans in respect of which any amounts have been outstanding for a period of more than ninety (90) days after the relevant due dates provided for under the relevant loan agreements; (ii) the gross loans restructured due to the relevant borrowers' inability to meet their payment obligations under the relevant loan agreement; and (iii) any other gross loans which in the reasonable opinion of the Bank's management (with the passage of time or otherwise) may qualify as non-performing loans under (i) and/or ii)) below 10% of its Tier 1 regulatory capital. The Bank sought and obtained a waiver in respect of such breach from the relevant lenders and the Bank has been in compliance with this covenant since the end of December 2010. As of 30 June 2011, the Bank was in compliance with all the financial covenants under the Financing Agreements.

Moreover, certain of the Group's Financing Agreements, as well as the 2012 Notes, carry restrictions on mergers, corporate restructuring, the payment of dividends above certain thresholds, disposal of assets, acquisitions, and/or liens on its assets.

In the case of the subordinated facilities, the Bank has an option in each case to prepay after the fifth anniversary of the disbursement date, with the consent of the NBG. The OPIC subordinated loan allows prepayment at any time, with the consent of the NBG. Unsubordinated facilities generally allow flexibility in terms of prepayment.

In February 2007, BG Finance B.V. issued US$200 million, 9% loan participation notes due 2012 (the **"2012 Notes"**) for the sole purpose of financing a loan to the Bank. The issuance of the loan participation notes was the debut eurobond transaction in Georgia. As of 30 November 2011, the principal aggregate amount of the 2012 Notes outstanding was US$55.5 million. For further information, see Paragraph 47 ("Material Loan Agreements") of Part XXI "Additional Information."

Between June and July 2008, the Bank completed a private placement of US$140 million, two-year loan pass-through notes. The notes were issued by Rubrika Finance Company Netherlands B.V. The noteholders had a right to exercise a put option on the notes one year from the date of issuance. J.P. Morgan Securities Ltd. acted as the sole arranger of the transaction. The Bank repurchased loan pass-through notes with a face value of US$91.0 million in the first half of 2009. The Bank then repaid the loan pass-through notes in full in June 2009.

As of 30 June 2011, the Bank had undrawn long-term loan facilities from credit institutions in the aggregate amount of US$68.3 million. For further information, see Paragraph 46 ("Material Contracts") of Part XXI "Additional Information."

Equity Funding

While customer accounts and loans are the Bank's principal sources of funding, the Bank has also raised capital through the issuance of new shares in the Bank in the past (see Part XIII "Description of Business — History and Development"). However, the Bank has not raised capital through the issuance of new shares in the Bank since 1 January 2008.

PART XIII

DESCRIPTION OF BUSINESS

Unless otherwise noted, all information relating to the Bank's market ranking and market share is based on information published by the NBG on 30 June 2011 based on standalone financial information filed with the NBG by Georgian banks.

Overview

The Group's strategic businesses are retail and corporate banking provided through Bank of Georgia, a universal bank, as well as wealth management. Bank of Georgia is the leading bank in Georgia based on total assets (with a 36.1% market share), total gross loans (with a 36.0% market share) and total customer deposits (with a 34.6% market share). The following tables set forth selected consolidated figures relating to the Group for the periods specified:

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
			(audited)		
	(thousands of Lari)	*(thousands of US$)*(1)		*(thousands of Lari)*	
Total assets	4,123,324	2,473,499	4,004,922	2,913,429	3,258,907
Loans to customers, net	2,375,110	1,424,781	2,351,697	1,661,331	2,039,022
Amounts due to customers	2,228,505	1,336,836	2,026,308	1,273,130	1,193,129
Total equity	751,761	450,966	693,341	598,417	718,849

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

	For the six months ended 30 June			For the years ended 31 December		
	2011		2010	2010	2009	2008
	(audited)		*(unaudited)*		*(audited)*	
	(thousands of Lari)	*(thousands of US$)*(1)			*(thousands of Lari)*	
Profit (loss) for the period	63,745	38,240	36,345	82,667	(98,908)	174

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

As of 30 June 2011, the Bank had one of the largest distribution networks in Georgia, with 143 branches, including full-service flagship branches, service centres and smaller-scale sales outlets, the largest ATM network in Georgia, comprising 408 ATMs, 86 self service terminals, a full-service remote banking platform and a modern call centre. As of 30 June 2011, the Bank served 862,369 retail banking clients (of which more than 90,000 are legal entities and more than 770,000 are individuals) and 9,504 corporate banking clients. The banking businesses generated 93.6% of the Group's total revenue in the six months ended 30 June 2011.

In addition to its strategic businesses, the Group also provides, insurance and healthcare, affordable housing and brokerage services throughout Georgia that enable the Bank to leverage its client base, distribution networks and sales force. The Group's operations include:

Bank of Georgia Group

Strategic businesses:
- Retail banking
- Corporate banking
- Wealth management

Synergistic businesses:
- Insurance and Healthcare
- Affordable housing
- Domestic brokerage

Non-core businesses:
- Belarus banking operations
- Other investments

- *Strategic businesses.*
  - *Retail banking:* Bank of Georgia is the leader in retail banking, with market shares of 36.6% (based on loans to individuals) and 30.0% (based on deposits from individuals) and three times more branches than the next three largest banks in Georgia, in each case as of 30 June 2011. Bank of Georgia's retail banking products and services include retail lending, deposit accounts, ATM services, internet, telephone and SMS banking, utility bill payments and other money transfer services. The Group's credit card operations serve more than 109,000 card holders, and the Group is the exclusive issuer of American Express credit cards in Georgia through 2017. As of 30 June 2011, the Bank had 862,369 retail banking clients (of which more than 90,000 are legal entities and more than 770,000 are individuals), a retail loan portfolio of GEL 1,108.5 million (US$ 665.0 million) and retail deposits of GEL 670.1 million (US$ 402.0 million). In the six months ended 30 June 2011, the Group's retail banking business generated revenue of GEL 98.6 million (US$ 59.1 million), corresponding to 45.7% of the Group's total revenue.
  - *Corporate banking:* Bank of Georgia is a leader in corporate banking, with a market share of 39.0% based on deposits from legal entities as of 30 June 2011. The Bank provides corporate lending and finance leasing (principally in US Dollars) in addition to offering current and deposit accounts, account administration and cash management services, payroll services, trade financing and foreign exchange services. As of 30 June 2011, the Bank had 9,504 corporate banking clients, a corporate loan portfolio of GEL 1,362.9 million (US$817.5 million) and corporate deposits of GEL 1,254.0 million (US$ 752.3 million). In the six months ended 30 June 2011, the Group's corporate banking business generated revenue of GEL 69.7 million (US$41.8 million), corresponding to 32.3% of the Group's total revenue.
  - *Wealth management:* Bank of Georgia's wealth management business attracts deposits from wealthy local and international clients. In line with the Bank's strategy of expanding the sale of wealth management deposit products and services internationally, the Bank has set up subsidiary companies in Tel Aviv and London which provide information services to wealth management clients. In the future, the Group expects to begin marketing investment products, starting with a regional fixed income fund that will invest in local and foreign currency denominated short-and medium-term debt instruments issued in Georgia and neighbouring countries, to add an additional revenue stream to its wealth management business.

In the six months ended 30 June 2011, the Group's strategic businesses generated revenue of GEL 171.5 million (US$102.9 million), corresponding to 79.4% of the Group's total revenue.

- *Synergistic businesses.*
  - *Insurance and healthcare:* Through its wholly-owned insurance subsidiary, ABCI, the Group is one of the leading providers of life and non-life insurance products in Georgia, based on a market share of 19.5% of the life and 16.8% of the non-life insurance markets as of 30 June 2011 (based on gross written premiums). The Group is particularly focused on the under-developed health insurance segment as a growth opportunity. In addition, with the aim of capturing as revenue a portion of the health insurance claims of its insurance operations, the Group owns and operates five outpatient clinics, four healthcare centres and one hospital in Georgia, and two healthcare facilities are under development. The Group intends to continue the vertical integration of its insurance and healthcare businesses to up-sell insurance products and with the goal of eventually capturing a majority of healthcare spending in Georgia. In the six months ended 30 June 2011, the Group's insurance business generated revenue of GEL 13.4 million (US$8.0 million), corresponding to 6.2% of the Group's total revenue.

- *Affordable housing:* Through its wholly-owned subsidiary, SBRE, the Group holds a land bank which includes real property the Group has acquired through loan work-outs and repossessions during the recent financial crisis. SBRE plans to develop this land bank as affordable housing, including the development and sale or leasing of up to 2,000 flats within the next three to four years, primarily in Tbilisi, to improve the liquidity of the repossessed real estate assets, to support its strategic retail mortgage lending business and to capitalise on the current unsatisfied demand for affordable housing in Tbilisi (which has depreciated housing stock and an average of 3.7 residents per property, according to Paragon LLC (a real estate consulting company in Georgia). The Group intends to outsource the construction and architecture works and to focus on project management and sales as it believes that the Bank's well-established brand name and superior distribution channels (including 143 branches and 1,736 sales staff) will assist it in marketing its properties and mortgages.

- *Domestic brokerage:* The Group also provides brokerage and investment banking services in Georgia through its subsidiary, BG Capital. The Group believes that its Georgian brokerage and investment banking services provide synergies with its strategic corporate banking and wealth management operations. In order for the Group to focus on its strategic businesses, the Bank's subsidiary, BG Capital, is in the process of exiting from its brokerage operations in Ukraine and Belarus. In November 2011, the Bank began proceedings to voluntarily wind-up BG Capital, Ukraine and BG Capital, Belarus.

In the six months ended 30 June 2011, the Group's synergistic businesses generated revenue of GEL 16.3 million (US$9.8 million), corresponding to 7.6% of the Group's total revenue.

- *Non-core businesses.* The Group's non-core businesses comprise BNB and Liberty Consumer. Through BNB, the Bank's subsidiary, the Group provides retail banking and corporate banking services in Belarus. Most of the Group's other investments are held through Liberty Consumer, a Georgia-focused investment company in which the Bank holds a 65% stake. In the six months ended 30 June 2011, the Group's non-core businesses generated revenue of GEL 33.6 million (US$ 20.1 million), corresponding to 15.5% of the Group's total revenue. The proportion of revenue attributable to Belarus for the period ended 30 June 2011 was higher than previous periods as a result of a one-off foreign currency gain. In order for the Group to focus on its strategic businesses, the Group intends to exit from its other non-core operations, including Liberty Consumer and the remaining equity interest in BG Bank and, in due course, its interest in BNB.

Following Admission, BGH will become the new ultimate parent company of the Group. BGH was incorporated and registered in England and Wales on 14 October 2011 as a public limited company with the name Bank of Georgia Holdings Plc and with the registered number 7811410. BGH's registered office and principal place of business is at 84 Brook Street, London, W1K 5EH, United Kingdom and its telephone number is +44 (0) 20 3178 4052. The principal laws and legislation under which BGH operates and under which the Subscriber Share and the Redeemable Shares have been allotted and issued are the Companies Act and regulations made thereunder.

Strengths

The BGH Directors believe that the Bank benefits from the following competitive strengths:

- *Leading market position in an under-penetrated market with significant growth potential.* The Group conducts its operations predominantly in Georgia, where the majority of its clients and assets are located. Bank of Georgia led the Georgian market in terms of total assets, total gross loans to customers and customer deposits as of 30 June 2011. As of 30 June 2011, Bank of Georgia's regulatory capital was 1.7 times that of the second largest bank in Georgia. The Bank is a leader in the corporate banking segment, with a market share of 39.0% (based on total deposits from legal entities), and in the retail banking segment, with market shares of 36.6% (based on loans to individuals) and 30.0% (based on total deposits from individuals), in each case as at 30 June 2011. From December 2005 to 30 June 2011, the Bank more than doubled its market share as measured by total assets, from 17.8% in December 2005 to 36.1% as of 30 June 2011, and increased its market share by 17.8% as measured by gross loans and 13.9% as measured by customer deposits. From December 2009 to 30 June 2011, the Bank increased its market share in assets by 3.1%, in gross loans by 4.1% and in customer deposits by 6.3%. Bank of Georgia has maintained its market-leading position for more than four years and it has amongst the highest brand recognition of any bank in Georgia. The Group's insurance subsidiary, ABCI, is one of the leading providers of life and non-life insurance products in Georgia, based on a market share of 19.5% of the life and 16.8% of the non-life insurance markets, as of 30 June 2011 (based on gross written premiums).

- *Growing under-banked market with solid macro and political fundamentals.* Georgia's already strong and recently improving macroeconomic fundamentals, including relatively high nominal GDP growth despite the recent economic downturn (13.3% CAGR from 2004 to 2010), have contributed to the development of the banking sector. From 31 December 2004 to 31 December 2010, loan penetration (total gross loans to GDP) within Georgia increased from 9.8% to 30.2%, deposit penetration (total deposits to GDP) increased from 10.0% to 28.1% and banking sector gross loans and deposits increased at a CAGR of 36.6% and 34.5%, respectively, based on data from the NBG. Despite this growth, in 2010 banking penetration in Georgia (measured according to the total loans to GDP ratio) remained significantly below that in the Euro zone, Central and Eastern European[(1)] markets and major countries of the former Soviet Union[(2)] (with banking penetration (measured according to the total loans to GDP ratio) of 193.0% in the Euro zone, 63.6% in Central and Eastern European[(1)] markets and 39.4% in major countries of the former Soviet Union[(2)], each as of December 2010 and according to Business Monitor International). This, combined with projected real GDP growth in Georgia of 6.0% in 2011 (according to the government of Georgia) and 5.3% in 2012 and 5.0% in 2013 (according to an IMF report published in June 2011), suggests that the Georgian banking industry has significant further growth potential. In particular, such growth is expected to come to a large extent from an increase in loans to households, which as of 1 January 2011 represented only 11.2% of GDP. As a result of its leadership position and extensive distribution network, the BGH Directors believe that the Bank is well placed to capitalise on expected growth in the Georgian banking industry.

- *Prudent risk management and focus on sound asset quality.* The Bank follows stringent risk management policies and procedures and has conservative credit approval processes and underwriting criteria, all of which are intended to maintain the quality of its assets as its loan portfolio grows. It also has an integrated control framework encompassing operational risk management and control, anti-money laundering compliance, and corporate and information security. The Bank's cost of risk has not exceeded its net interest margin at any time since December 2008 while its loans past-due more than 90 days coverage ratio has remained over 100% since December 2009.

- *Transparency and robust corporate governance.* The Bank has a culture of transparency and has been complying with the obligations applicable to it under the UK Listing Authority Listing Rules and Disclosure Rules since November 2006, when it became the first Georgian entity to list its GDRs on the London Stock Exchange. The Bank also adheres to a robust corporate governance policy. The Bank Supervisory Board is comprised of seven non-executive members, five of whom are independent directors, including the Chairman and the Vice-Chairman, (see Part XVI "Directors, Senior Management, Corporate Governance and Employees — BGH Corporate Governance Policy and Board Committees" with backgrounds in banking and financial services, asset management, corporate law and management consulting (among others). All seven of the Bank's non-executive directors will serve on BGH's board of directors. BGH is in compliance with all of the requirements of the Corporate Governance Code, save that, contrary to the provisions of section D.1.1 of the Corporate Governance Code, the remuneration of BGH's executive director in his capacity as director of the Bank will include share options pursuant to the SEECP which will vest in less than three years. For further, see Paragraph 23 ("Senior Executive Equity Compensation Plan") of Part XXII "Additional Information".

- *Strong liquidity and regulatory capital.* The Bank is well-capitalised and maintains strong liquidity positions. According to Basel I standards, on a consolidated basis the Group had a Tier I capital ratio of 18.1% and a Total capital ratio of 26.7% as of 30 June 2011. According to NBG standards, as of 30 June 2011, on a stand-alone basis, the Bank had a Tier I capital ratio of 11.51% and a total capital ratio of 15.14%, considerably in excess of the minimum requirements of 8% for Tier I Capital and 12% for total capital ratios. The Bank also maintains a strong liquidity position, with an NBG liquidity ratio (average liquid assets during the month (as defined by the NBG) divided by average-borrowed funds with effective maturity of more than six months plus certain off balance sheet commitments maturing within six months) of 37.9% on a stand-alone basis as of 30 June 2011, which is above the NBG requirement of 30%. See Part XXIII "Regulation of the Georgian Banking Sector". The BGH Directors believe that the Group's liquidity and solid capitalisation assisted the Bank during the global recession as customers viewed the Bank as a stable and safe financial institution. As a result, the BGH Directors believe that it will continue to be able to capitalise on the continuing economic recovery.

- *Leading retail banking franchise and brand recognition.* The BGH Directors believe that the Bank offers the most comprehensive range of financial products in the Georgian retail market. As of 30 June 2011, the Bank had one of the widest distribution networks in Georgia with 143 branches, the largest ATM network in Georgia, comprising 408 ATMs, 86 self service terminals, more than 2,600 point-of-sale (**"POS"**) terminals, a universal remote banking platform and a modern call centre. In particular, the BGH Directors believe that the Bank's extensive distribution network in Georgia gives it a strong platform from which it can cross-sell and up-sell its

(1) Bosnia, Bulgaria, Czech Republic, Croatia, Hungary, Latvia, Poland, Romania, Slovenia and Slovakia

(2) Russia, Ukraine, Kazakhstan

products and services to new and existing clients. Bank of Georgia's diversified product offering and distribution network assist it in cross-selling products between its retail and corporate client bases and between its synergistic and banking businesses. The Bank has exclusive arrangements to issue American Express cards and provide acquiring services in Georgia, and to issue Bank of Georgia-branded contactless cards to users of the Tbilisi municipal metro and bus transport payment system. The Bank has, with advice from international brand consultants, applied a unified branding strategy to branch design, advertising and corporate communications, including through social media. This strategy is tailored to customer segments while supporting the Bank's master brand. According to research conducted by TNS (a custom market research specialist) in April 2011 relating to Georgian banks, the Bank had the highest spontaneous brand awareness (90%). The Bank's Facebook page had more than 301,000 followers as of 12 October 2011, making it the third most popular among banks' pages worldwide according to SocialBakers.com. The BGH Directors believe that the Bank's brand identity supports its retail franchise and promotes client loyalty.

- *Experienced management with a deep understanding of the local market.* The Bank's senior management team is comprised of experienced, primarily Western-educated and trained, professionals with significant domestic banking, international investment banking and insurance expertise and an average of 10.9 years' management experience in the banking and insurance industry. Since the appointment of the current management team in the fourth quarter of 2004, the Bank has: grown more than ten times in asset size while maintaining an emphasis on asset quality and conservative risk management policies; increased its total market share, measured by total assets, from 19% to 36% by entering the retail banking segment and improving access to capital; diversified its business; established itself as a borrower in the international markets; attracted new institutional equity investors; and strengthened its transparency and corporate governance policies and procedures. At the same time, the Bank has continued to invest in its credit approval and loan loss provisioning systems and its loan collection systems and software and to develop its human resources policies. The BGH Directors believe that these factors, together with its strong understanding of the Georgian market and the local financial services sector, have given the Bank streamlined and efficient credit approval and decision-making processes that allow it to respond rapidly to market developments. These are attractive and important factors and qualities for corporate and retail banking clients and also enable the Group to tailor its strategy and product offering to the local market.

Strategy

Following a strategic review of the Group's operations in 2011, the Bank Supervisory Board (on the recommendation of the Bank Management Board) determined that the Group would concentrate on the high-growth Georgian market rather than pursue its previous international expansion strategy, and would also focus on the development of synergistic business opportunities by leveraging the Bank's leading market position in the Georgian banking sector. In order for the Group to focus on its strategic businesses, the Bank's subsidiary, BG Capital, is in the process of exiting from its brokerage operations in Ukraine and Belarus. The Group intends to exit from its other non-core operations, including Liberty Consumer and the remaining equity interest in BG Bank and, in due course, its interest in BNB.

The Group's overall objective remains unchanged — to maximise return on average equity ("**ROAE**") by pursuing opportunities for profit-accretive growth through the expansion of its loan book while maintaining strong asset quality which is supported by a growing deposit base and increased operating efficiencies.

The key elements of the Group's business strategy are set out below.

- *Maintain its leading position in the growing and still under-penetrated Georgian banking market.* In recent years, according to information published by the NBG, the Bank has continued to grow and gain market share. From December 2005 to 30 June 2011, the Bank more than doubled its market share as measured by total assets, from 17.8% in December 2005 to 36.1% as of 30 June 2011, and increased its market share by 17.8% as measured by gross loans and 13.9% as measured by customer deposits. From December 2009 to 30 June 2011, the Bank increased its market share in assets by 3.1%, in gross loans by 4.1% and customer deposits by 6.3%. The Bank intends to continue to focus on growth within the expanding but still under-penetrated domestic Georgian banking market, with particular emphasis on retail banking. The BGH Directors believe that, with a ratio of loans to households to GDP of only 11.2% as of 1 January 2011, retail banking offers particularly high growth potential. Bank of Georgia has launched its Solo Banking (premier banking service) and new products to attract mass affluent clients. The Bank has also moved its SME banking products and services from its corporate banking segment to its retail banking segment to offer SME clients dedicated products and services in its retail branches and a more personalised service. In addition, the Bank announced the launch of its Express Banking Services aimed at mass market and emerging mass market customers on 14 December 2011. The Bank's

Express Banking Services comprises a chain of small-size service terminals providing self-service and remote transactional banking facilities. The Bank's aim is to provide fast, accessible, cost-effective and competitively priced services through a network of dedicated branches to free up flagship branches, which generally sell higher value-added services and products, and to improve cross-selling and up-selling of its products and services. It also aims to transition retail banking clients to use remote banking and self service terminals to enable the Bank to increase efficiency.

- *Focus on profitable growth.* From 2008 to 2010, the Group's gross loans increased from GEL 2,145.6 million to GEL 2,527.2 million (or by 17.8%) and total deposits from GEL 1,193.1 million to GEL 2,026.3 million (or by 69.8%). Management sees opportunities to further increase the Group's lending activities and deposits. In pursuing growth, the Group will continue to focus on maintaining its profitability. From 2008 to 2010, the Group's net income grew from GEL 0.2 million in 2008 to GEL 82.7 million, ROAE increased from 0.6% to 13.5%, cost of risk decreased from 5.3% to 1.7% and the currency-blended loan yield decreased from 18.9% to 17.9%. The BGH Directors believe that the Bank's platform will allow it to significantly increase the scale of its businesses at relatively low marginal costs. The Bank seeks to continue to redesign and enhance its banking product range with an emphasis on well-designed, packaged products that are suitable for cross-selling and up-selling. The Bank will also seek to continue to realise efficiencies, for instance continuing to invest in IT, promoting the transition of retail banking clients to use remote banking and increasing the number of self-service terminals, which will further support the Bank's profitability.

- *Increase the Bank's loan portfolio while maintaining asset quality.* According to the IMF, nominal GDP in Georgia is projected to increase by a CAGR of 12.2% from 2010 through to 2013, and the BGH Directors expect that loan penetration rates in Georgia will continue to increase over the same period. Already a clear leader in Georgia's mass retail and corporate banking segments, the Bank will seek to capture this expected growth to significantly expand its loan portfolio and deposit base, by expanding its retail and corporate portfolios and targeting mass affluent clients (clients with an income in excess of GEL 3,000 a month who are not wealth management clients) and SME clients (businesses that have a total annual turnover of less than GEL 5.0 million and/or that are applying to borrow up to US$500,000). Management expects the size of the Bank's loan portfolio to double between the end of 2010 and the end of 2013 in line with expected growth in the market, without compromising the Bank's conservative credit approval processes in order to maintain the quality of its assets.

- *Continue to expand deposit funding to support the Bank's growth.* Bank of Georgia intends to fund growth of its loan book mainly through customer deposits. The Group's consolidated amounts due to customers have grown from GEL 1,193.1 million to GEL 2,228.5 million, or 86.8%, from 31 December 2008 to 30 June 2011. In line with increases in nominal GDP, the BGH Directors expect deposits to continue to increase over the same period. In addition to its regular sources of funding (corporate and mass retail deposits), the Bank intends to focus on increasing funding from wealthy and mass affluent clients, where it is currently underrepresented. The Bank also aims to increase the number of international wealth management clients that use its deposit products and services as it seeks to further broaden the sources of its deposit funding.

- *Continue to invest in and improve systems and technology to increase operational efficiency.* The Group decreased its consolidated ratio of costs to income from 60.6% in the first half of 2010 to 49.1% in the first half of 2011, in part, through operating efficiencies from centralising back office functions. The Bank is continuing to invest in IT and is in the process of rolling out new loan origination, management and administration systems to automate and improve the Bank's retail loan application processes. The complete rollout of the new loan origination system, which will enable electronic processing of documentation, will allow retail underwriters access to an up-to-date credit history snapshot (**"single client view"**) and to determine shadow limits. The Bank has also invested in an automated loan collection system to enable the Bank to manage the overdue loans portfolio effectively and improve debt collection rates. The system is also able to automatically generate notifications of overdue payments in respect of retail banking clients. The BGH Directors expect that this will result in improvements to its loan monitoring and collection capability and assist the Bank to sell additional products to its clients while further reducing the back office function. The Bank is also in the process of implementing a new automated human resource management system, which is intended to identify talent within the Bank, reduce the cost of external hiring through internal promotions and provide a useful analytical tool to monitor employee performance and development. The BGH Directors expect additional operational efficiencies as a result of these investments.

- *Capture growth and synergies in the Georgian insurance, healthcare and affordable housing sectors.* The Group seeks to leverage its more than 860,000 retail banking clients, 143 branches and a sales force of 1,736 persons to capture growth opportunities in the Georgian insurance, healthcare and affordable housing markets. The Group intends to continue the vertical integration of its insurance and healthcare businesses. From 2006, until December 2011, My Family Clinic has been expanding to operate five outpatient clinics and ABCI (its parent company) has been operating one hospital (an inpatient centre) in Georgia. As announced on 6 December 2011, My Family Clinic completed the construction of, and opened, four healthcare centres in western Georgia in December 2011, with a total of 60 beds. These centres provide the full range of services offered at outpatient clinics as well as planned surgical treatments.

Operating a chain of healthcare centres within a region allows the Group to make cross-referrals of patients between the Group's inpatient and outpatient clinics. In addition, ABCI is able to hedge its claims expenditure on health insurance by converting claims expenditure into revenue for its healthcare business. My Family Clinic is in the process of developing two additional healthcare centres in the western part of Georgia, where the majority of ABCI's health insurance clients under a government programme are concentrated. In the six months ended 30 June 2011 and in the year ended 31 December 2010, claims expenditure under ABCI's health insurance programme amounted to GEL 13.3 million and GEL 25.7 million, respectively, of which only 23.9% and 22.1%, respectively, was captured as revenue in the Group's existing six healthcare centres. My Family Clinic's five outpatient clinics provide a full range of outpatient services including comprehensive laboratory tests and x-ray facilities, among others. The Group will seek to leverage ABCI's market leading position in the Georgian insurance market and its network of healthcare facilities, one of the few managed healthcare chains in the country, to benefit from the growth of the under-penetrated insurance market and its ongoing integration with the currently fragmented Georgian healthcare segment, which has depreciated infrastructure, with healthcare spending in Georgia amounting to as much as 10.1% of GDP as of 31 December 2009 according to the National Health Accounts published by the Ministry of Labour, Health and Social Affairs of Georgia. Of this, a relatively small proportion (approximately 10%, according to the NBG) of healthcare spending is currently funded through health insurance policies.

In addition, the BGH Directors believe that the Group has an attractive opportunity to use the land bank of repossessed real estate held by its real estate subsidiary, SBRE, to develop affordable housing for buyers in Tbilisi in order to improve the liquidity of the repossessed real estate assets and to stimulate its mortgage lending business. There is currently unsatisfied demand for affordable housing in Tbilisi (which has depreciated housing stock and an average of 3.7 residents per property, according to Paragon LLC (a real estate consulting company in Georgia) and a lack of investment as a result of the three leading real estate developers in the Georgian market ceasing construction and trading during the downturn. The Group intends to outsource the construction and architecture works and focus on project management and sales as it believes that the Bank's well-established brand name and superior distribution channels will assist it in marketing its properties and mortgages. In the pilot project of building and selling small-format apartments demand was high supporting price increases from the initial US$850 per square metre to US$1,000 per square metre. In the future, the Group does not intend to purchase additional real estate but may acquire it through repossessions.

- *Pursue selective acquisitions in Georgia.* The Group may pursue selective acquisition opportunities in the banking, insurance and healthcare industries in Georgia if attractive opportunities arise on commercially acceptable terms.

History and Development

Bank of Georgia traces its roots to 1903 and is the successor to the state-owned Binsotsbank, which was privatised in 1994. In the period of over 15 years since its privatisation, the Bank has undergone several stages of development.

In the mid-1990s, the Bank received a number of credit lines from EBRD, IFC, DEG and other international financial institutions to fund its growth. In 1997, the Bank co-founded Joint Stock Company Georgian Card (**"Georgian Card"**), a card processing company. In 2000, the Bank became one of the first companies to list its securities on the Georgian Stock Exchange and EBRD acquired a 13.7% shareholding in the Bank. Subsequently, in 2001 DEG acquired an 11.1% shareholding in the Bank. EBRD and DEG sold their respective shares in the Bank in 2005 and 2006. In 2004, the Bank's senior management was replaced by a team made up predominantly of western-trained and educated professionals. In October 2004, the Bank's new management team began to revitalise and modernise the Bank. Under its new management, the Bank has grown more than ten times in asset size, diversified its revenue streams, made several acquisitions in line with its strategy, established itself as a borrower in the international markets, attracted several new institutional equity investors, increased its transparency and strengthened its corporate governance policies and procedures. At the same time, the Bank revised its credit, loan loss provisioning and human resources policies.

In the period between 2003 and 2005, the Bank acquired a 100.0% equity interest in Galt & Taggart Securities (subsequently rebranded as BG Capital), which is currently the biggest brokerage company in Georgia in terms of total assets.

In late 2004, the Bank made several strategic acquisitions. In November 2004, the Bank increased its shareholding in Georgian Card from 19.6% to 50.3% and subsequently increased its shareholding to 71.69%,which enabled it to invest intensively in the upgrading of its plastic card business, which the BGH Directors believe is a key area for retail banking. In December 2004, the Bank acquired Joint Stock Company TbilUniversalBank (**"TUB"**), the ninth largest bank in Georgia at the time, based on total assets and equity and according to information published by the NBG. At the time of the acquisition, TUB owned a 60.0% equity interest in GLC. Bank of Georgia increased its ownership in GLC to 100.0% in March 2006. The acquisition of TUB led to an increase of the Bank's market share and client base, enabling it to add leasing services to its corporate banking activities. It also resulted in the Bank gaining several new experienced members of its management team.

In late 2004, the Bank acquired Joint Stock Company Insurance Company BCI (**"BCI"**), one of the leading insurance companies in Georgia, offering a broad range of insurance services to both corporate and retail clients. Bank of Georgia's presence in the Georgian insurance market was further enhanced in October 2005 when the Bank acquired 100.0% of Joint Stock Company Europace Insurance Company.

In February 2006, the Bank purchased the assets and liabilities of Joint Stock Company Intellect Bank (**"Intellect Bank"**), which was then under temporary administration by the NBG. At the time of the acquisition, Intellect Bank was the ninth largest bank by assets in Georgia, according to information published by the NBG. Although the asset quality of Intellect Bank was weak, Intellect Bank possessed a strong retail client base. The acquisition of Intellect Bank enabled the Bank to expand its branch network and operations. In addition, the integration of Intellect Bank enhanced the Bank's retail market share through the addition of approximately 23,000 retail clients, gave it a leading position in money transfers and provided additional cross-selling opportunities.

In November 2006, the Bank raised net proceeds of US$128.1 million on the London Stock Exchange through the issuance of over 7.4 million new ordinary shares in the Bank represented by GDRs pursuant to an initial public offering to institutional investors. The GDRs are listed on the Official List of the UK Listing Authority and are admitted to trading on the Main Market. Bank of Georgia was the first Georgian company to list its GDRs on the London Stock Exchange.

In December 2006, the Bank, through its wholly-owned insurance subsidiary BCI, acquired Aldagi, the leading insurance company in Georgia. In June 2007, BCI and Aldagi merged to create ABCI. ABCI is licensed to carry out life insurance and non-life insurance activities. ABCI also provides healthcare services through its subsidiary which operates several clinics.

In late 2006, the Bank acquired a 9.9% interest in Universal Bank for Development and Partnership, a mid-sized bank in Ukraine (subsequently rebranded into BG Bank) and, in October 2007, it acquired an additional 88.85% equity interest in BG Bank, resulting in a total equity interest of 98.77%. On 3 March 2008, the shareholders of BG Bank approved the increase of BG Bank's share capital from UAH 140 million to UAH 265 million through the issuance of 125 million ordinary registered shares. Following the capital increase, the Bank's ownership interest in BG Bank increased to 99.35%. In February 2011, the Group disposed of an 80.0% equity interest in BG Bank, its banking subsidiary in Ukraine, to a number of Ukrainian individuals. For further, see Part X "Management's Discussion and Analysis of Financial Condition and Results of Operations — Six Months Ended 30 June 2011 and 2010 — Net Losses from Discontinued Operations".

In February 2007, BG Finance B.V. issued US$200 million, 9% loan participation notes due 2012 (**"2012 Notes"**) for the sole purpose of financing a loan to the Bank. The issuance of the 2012 Notes was the debut eurobond transaction by a Georgian company.

In May 2007, the Bank acquired a 100.0% equity interest in Cascade Bank Georgia (subsequently rebranded into Joint Stock Company Galt & Taggart Bank), one of the smallest banks in Georgia. In June 2008, Joint Stock Company Galt & Taggart Bank merged with the Bank and ceased to exist as a legal entity.

In February 2008, the Bank raised gross proceeds of US$100.0 million on the main market of the London Stock Exchange through the offering and issuance of 4.0 million GDRs.

In June 2008, the Bank increased its authorised share capital by 7.0 million shares and pre-emptive rights in respect of those 7 million shares were cancelled.

In July 2008, the Bank acquired a 70.0% equity interest in BNB (indirectly through a Belarus entity) and retained an option to acquire the remaining 30.0% equity interest in BNB within three years. As of 30 June 2011, BNB, which is headquartered in Minsk, served approximately 11,300 individuals and 1,800 legal entities, through its 7 service centres and 14 ATMs.

In December 2008, the Bank completed the reorganisation of its retail banking business in Georgia as part of its strategic cost control measures in response to the economic downturn. The principal changes in the retail banking business included the temporary closure of POS lending and mobile sales units, the merger and downsizing of the general consumer and mortgage lending units and the reduction of micro finance activities. As a result of the downsizing, there were job losses affecting a total of 830 employees with full-time standard contracts and 249 employees with temporary contracts. The reorganisation led to an increased focus on the strategic businesses of the Bank, resulting in greater operational efficiency and cost-savings.

In December 2008, the Bank signed an agreement through which it has become the exclusive partner of American Express for credit card acquisition and issue in Georgia through 2017. As a result of this exclusive partnership with American Express, the BGH Directors believe that the Bank has strengthened its position as a leading retail bank in Georgia by expanding its range of retail products and increasing its penetration into the mass affluent retail market.

In June 2009, in connection with IFC and EBRD convertible subordinated loan facilities, the Bank increased its authorised share capital by 3,472,506 shares and pre-emptive rights in respect of those 3,472,506 shares were cancelled.

In August 2009, in order to reduce the Bank's exposure to the asset management segment and as part of the Bank's restructuring of its non-core asset management business, Galt and Taggart Holdings Limited sold its entire equity stake (80%) in Galt and Taggart Asset Management, Georgia LLC (**"GTAM"**) (subsequently rebranded into Abbey Asset Management) by way of a management buy-out for cash consideration of US$390,000. While GTAM was part of the Group it managed, among other things, Liberty Consumer's investments (which are currently classified as non-core).

In August 2009, the Bank made a successful application for a block-listing of 43,308,125 GDRs (consisting of 25,335,619 previously listed GDRs and 17,972,506 additional GDRs) on the Official List and for admission to trading on the London Stock Exchange's main market for listed securities. No proceeds were raised in connection with this transaction.

In 2008 and 2009, the Bank enhanced its management team by hiring a number of western-educated senior executives, with substantial experience operating in the financial services industries in Western Europe and North America. As a result, the Bank Management Board increased in size from four to nine executive members. Following the enhancement of the Bank Management Board, in an attempt to improve its corporate governance, the Bank introduced a two-tier board structure, with the Bank Management Board led by the Chief Executive Officer, and the Bank Supervisory Board comprising only non-executive directors, including the Chairman.

In January 2010, the Bank completed the acquisition of a non-controlling stake in BNB, increasing the Bank's equity interest in BNB from 70.0% to 99.96%. In addition, BNB's share capital increased by €10.43 million in January 2010 as a result of a closed share subscription approved by an extraordinary meeting of shareholders of BNB. As a result, the Bank's equity interest in BNB increased from 99.96% to 99.98%.

In June 2010, the Bank was the first bank in Georgia to open a direct account with Euroclear Bank, allowing the Bank to conduct settlements of international and local securities in over 90 countries and to start offering global custodian services for the first time in the Georgian market.

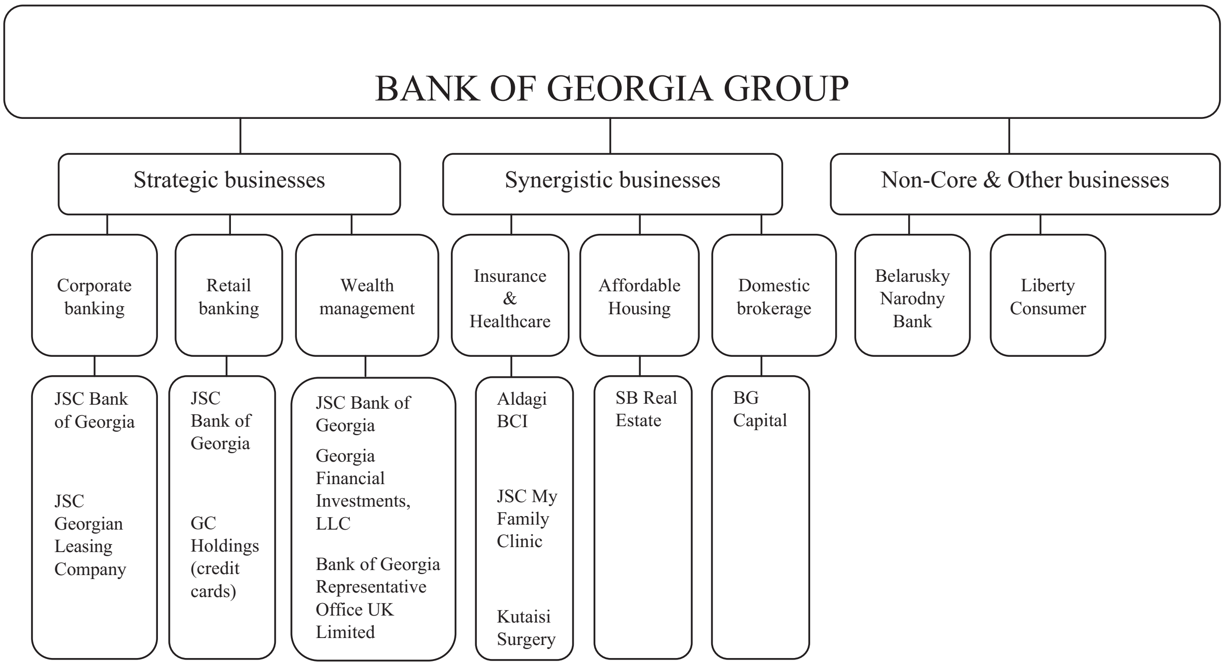
In July 2010, the Bank sold 19.99% of its equity interest in BNB to IFC. The Bank also granted IFC a put option to sell its newly acquired 19.99% equity interest in BNB back to the Bank. The put option is exercisable from 15 January 2015 until 1 January 2017. See Part X "Management's Discussion and Analysis — Overview of Acquisitions and Disposals — Disposals".

In 2010, the Bank Supervisory Board approved a new compensation policy for the Bank's Chief Executive Officer, Deputy Chief Executive Officers and certain of the Group's executive officers, which is effective for three compensation years ending January 2013. The new compensation policy envisages relevant employees receiving guaranteed and discretionary grants of securities, rather than cash-bonuses which have been entirely abandoned. The guaranteed and discretionary grants of securities are subject to four and two years vesting, respectively. See Paragraphs 19 to 23 of Part XXI "Additional Information."

Having previously established a subsidiary company, Georgia Financial Investments, LLC, in Tel Aviv in 2008, the Bank set up another subsidiary company, Bank of Georgia Representative Office UK Limited, in London in August 2010. In line with the Bank's strategy of expanding the sale of wealth management deposit products internationally, Georgia Financial Investments, LLC and Bank of Georgia Representative Office UK Limited provide information relating to deposit products (including structured deposit products) offered by the Bank's wealth management business and, in addition, the Representative Office UK Limited in London facilitates communication with the Bank's Existing Holders.

Corporate Structure

The following simplified diagram illustrates the Group's structure as of 30 June 2011.



Strategic Businesses

Retail Banking

Bank of Georgia is the leader in retail banking, with market shares of 36.6% (based on loans to individuals) and 30.0% (based on deposits from individuals) and three times more branches than the next three largest banks in Georgia, in each case as of 30 June 2011. Bank of Georgia's retail banking products and services include retail lending, deposit accounts, ATM and terminal services, internet, telephone and SMS banking, utility bill payments and other money transfer services. As of 30 June 2011, the Group's card operations served more than 740,000 cards, and the Group is the exclusive issuer of American Express credit cards in Georgia through 2017. As of 30 June 2011, the Bank had 862,369 retail banking clients (of which more than 90,000 are legal entities and more than 770,000 are individuals), a retail loan portfolio of GEL 1,108.5 million (US$ 665.0 million) and retail deposits of GEL 670.1 million (US$ 402.0 million). In the six months ended 30 June 2011, the Group's retail banking business generated revenue of GEL 98.6 million (US$ 59.1 million), corresponding to 45.7% of the Group's total revenue.

The Bank's strategy for its retail banking business is to complete the Bank's shift from a product-based to a client/segment-based approach by introducing packages of products and services aimed at different segments of its retail banking client base. In particular, it aims to increase its market share in all segments, restructure its existing branch network to increase efficiency and sales (including cross-selling and up-selling), offer relationship banking for mass affluent clients, develop alternative distribution channels to make its products more accessible and simplify its product offering and speed of execution.

In November 2009, the Bank launched its Solo Banking service (a premier banking service comprising a specially developed package of products and services (which was further enhanced in 2011), including its flagship American Express Gold cards) to serve mass affluent retail banking clients. Solo Banking clients are offered the services of a relationship banker working at a dedicated Solo Banking branch or in "Solo" corners in flagship branches. In May 2011, the Bank introduced the Solo "Family" package targeted at members of the family of Solo clients.

In order to improve access to SME clients through the Bank's existing branch network and take advantage of synergies between the Bank's retail and SME businesses, SME banking was moved from corporate to retail banking in September 2010. Currently, SMEs are offered tailor-made products and services in the Bank's retail branches and a more personalised service. Solo banking services are cross-sold to owners and executives of SMEs, as well as SME employees, who are offered retail banking services.

On 14 December 2011 the Bank announced the launch of its Express Banking services aimed at mass market and emerging mass market clients, which will comprise a chain of small-size branches providing self-service transactional and remote banking facilities. The Bank's aim is to provide fast, accessible, cost-effective and competitively priced services through a network of dedicated branches at strategic locations and transition retail banking clients to using remote banking in order to increase efficiency. With the Express Banking offering, the Bank also aims to free up existing flagship branches to better position itself to acquire new clients, sell higher value-added services and products, and to improve cross-selling and up-selling of its products and services.

In addition, the Bank is investing in automated loan processing and scoring systems and an automated collection system to reduce transactional costs, decrease service time, decrease time to market new products and increase efficiency.

Clients

The Bank divides its retail banking clients into five segments: (i) mass affluent (with monthly incomes of GEL 3,000-15,000 and liquid assets of GEL 20,000-165,000); (ii) mass market (with monthly incomes of GEL 500-3,000 and liquid assets of GEL 1,000-20,000); (iii) emerging mass market (with monthly incomes below GEL 500 and liquid assets below GEL 1,000); (iv) SMEs; and (v) Micro/Agro businesses. See "— Micro and agro financing loans and SME loans".

Deposit taking from retail banking clients. Retail deposits include current accounts and savings accounts (including demand deposits and time deposits) that pay interest. The Bank's current accounts consist of standard accounts (which are basic bank accounts) and universal accounts (which are multi-currency accounts that are also linked to a debit card and permit online account management services). The Bank charges a monthly fee of GEL 1.00 for each universal account and GEL 1.50 for each standard account. Additional fees are charged for SMS banking, standing orders and direct debit services. Fees are typically waived or reduced for clients in payroll programmes. In 2010, the Bank launched a new deposit taking service called Electronic Qulaba (Piggy Bank). Clients with active Electronic Qulaba accounts can automatically transfer a predetermined amount from their current account to their savings account every time they use their debit card.

As of 30 June 2011, the total amount due to retail banking customers by the Group was GEL 670.1 million (US$402.0 million), or 30.1%, of the Group's total amounts due to customers, as compared to GEL 535.3 million and GEL 376.1 million as of 31 December 2010 and 2009, respectively, according to the Group's management accounts.

The following table sets out information on the Group's deposits from retail banking customers of the dates indicated (the table includes retail banking customers of BNB for the periods indicated and BG Bank prior to February 2011):

	As of 30 June		**As of 31 December**		
	2011		**2010**	**2009**	**2008**
	(thousands of Lari)	*(thousands of US Dollars)*[(1)]	*(unaudited) (thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Total amount due to retail customers[(2)]	670,129	401,997	535,348	376,140	320,415

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

(2) Total amounts due to retail customers includes current accounts, term deposits and demand deposits of the Group's retail banking customers. This item does not include deposits from individuals who are customers of the Group's wealth management business. See "— Wealth Management". This item also includes deposits from the Group's micro-financing loan customers (non-individuals), which are classified as retail banking deposits by the Group. Amounts due to SMEs is included in corporate for 2008 and 2009 and included in retail for 2010 and for the six months ended 30 June 2010 and 2011.

Retail lending. The Group has increased the size of its retail loan portfolio to GEL 1,108.5 million (US$665.0 million) as of 30 June 2011, compared to GEL 1,062.9 million and GEL 840.4 million as of 31 December 2010 and 2009, respectively. As of 30 June 2011, gross retail loans comprised 44.4% of the Group's total gross loans to customers.

The following table sets out the Group's retail banking loan portfolio (gross of allowance for impairment losses) by type of loan for the dates indicated (including retail banking loans of BNB throughout the periods indicated and BG Bank (prior to February 2011)):

	As of 30 June			As of 31 December					
	2011			2010		2009		2008	
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(% of total retail banking loans)*	*(thousands of Lari)*	*(unaudited) (% of total retail banking loans)*	*(thousands of Lari)*	*(% of total retail banking loans)*	*(thousands of Lari)*	*(% of total retail banking loans)*
Mortgage loans[2]	340,806	204,443	30.7%	388,628	36.6%	357,998	42.6%	357,255	34.2%
Micro- and agro-financing loans and SME loans[3]	273,359	163,983	24.7%	238,462	22.4%	99,981	11.9%	151,313	14.5%
General consumer loans	248,711	149,197	22.4%	190,626	17.9%	135,080	16.1%	215,123	20.6%
Credit cards and overdrafts[4]	120,937	72,548	11.0%	123,147	11.6%	129,222	15.3%	157,423	15.1%
Pawn loans	73,703	44,213	6.6%	66,749	6.3%	62,829	7.5%	46,374	4.4%
Automobile loans	40,469	24,277	3.7%	48,785	4.6%	53,832	6.4%	78,709	7.5%
POS loans	10,509	6,304	0.9%	6,478	0.6%	1,433	0.2%	39,618	3.7%
Total retail loans, gross	**1,108,494**	**664,965**	**100.0%**	**1,062,875**	**100.0%**	**840,375**	**100.0%**	**1,045,815**	**100.0%**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

(2) Excludes loans to its private banking customers as part of the Group's wealth management business.

(3) Loans to SMEs are included in corporate for 2008 and 2009 and included in retail for 2010 and for the six months ended 30 June 2010 and 2011.

(4) Credit cards and overdrafts comprises average balances on credit cards, overdrafts and certain consumer loans with terms that deviate from the standard terms used for the Group's general consumer loans and overdrafts.

The Bank's retail lending products and services primarily comprise:

Micro and agro financing loans and SME loans. The Bank offers micro-financing loans to entrepreneurs and micro businesses. Micro-financing loans are loans resulting in the Bank's overall exposure to the relevant borrower of up to US$20,000 offered to entrepreneurs and micro businesses who have a total annual turnover of less than GEL5.0 million (US$3.0 million). Micro loans include MicroLoan+, a packaged product tailored to the needs of micro- small- and medium- sized business owners.

The Bank offers agro-financing loans to micro and SME businesses that operate in the agricultural industry. The Bank also offers SME loans to entrepreneurs and SME businesses. SME loans are loans resulting in the Bank's overall exposure to the relevant borrower of more than US$20,000 and less than US$500,000 that are offered to entrepreneurs and SMEs who have a total annual turnover of less than GEL 5.0 million (US$3.0 million). SME loans offered include MicroLoan+. SME loans were reclassified as retail loans in September 2010. In 2008 and 2009 they were classified as corporate loans.

As of 30 June 2011, the Group had GEL 273.4 million (US$164.0 million) in gross micro and agro financing and SME loans outstanding, accounting for 24.7% of the Group's total gross retail loans.

Mortgage loans. The Bank offers mortgage loans with a typical tenor of 10 years for the purchase or renovation of real estate. These loans are secured by a first-ranking mortgage of the real estate purchased and/or a mortgage/ pledge of alternative property or other collateral. The Bank also offers Hypo+, a packaged product, which is the first and only flexible offset mortgage available to home buyers in Georgia.

As of 30 June 2011, the Group had GEL 340.8 million (US$204.4 million) in gross retail banking mortgage loans outstanding, or 30.7% of total retail gross loans. The Bank additionally provides mortgages to wealth management clients as part of its wealth management business.

General consumer loans. General consumer loans are offered as fixed-term, fixed-instalment loans to be used for general purposes. The maximum principal amount of a consumer loan secured by real estate is capped at GEL 50,000 (US$29,994) with a maximum maturity of five years. Since 2010, the Bank has offered loans exclusively to members of its payroll services, who can withdraw consumer loans from ATMs following approval notification being received via an SMS. This offering of SMS loans enables the Bank to free up front office time to service payroll clients in branches.

As of 30 June 2011, the Group had GEL 248.7 million (US$149.2 million) in gross general consumer loans outstanding, or 22.4% of total gross retail loans. The Bank additionally provides general consumer loans to its wealth management clients as part of its wealth management business.

Pawn loans. Pawn loans are loans made to retail banking clients that are secured by precious metals and gems deposited by the client. Pawn loans are offered as fixed-term loans to be used for general purposes and may be given for a period of up to three months with a right of extension at the end of the period.

As of 30 June 2011, the Group had GEL 73.7 million (US$44.2 million) in gross pawn loans outstanding, accounting for 6.6% of the Group's total gross retail loans.

POS loans. POS loans are express loans offered for consumer goods sold at merchant stores. Such loans are secured by a charge over the goods purchased with the loan. As of 30 June 2011, the Bank had a total of 2,630 POS sales desks.

As of 30 June 2011, the Group had GEL 10.5 million (US$6.3 million) in gross POS loans outstanding, accounting for 0.9% of the Group's total gross retail loans.

Automobile loans. The Bank has agreements with various automobile dealers in connection with providing loans for the purchase of fully-insured vehicles. As of 30 June 2011, the Bank had 50 agreements in place with automobile dealers and the Bank maintains a physical presence at nine dealers. These loans are secured by a charge over the purchased vehicle. The Bank also offers Auto+, an automotive loan package available at most major automobile dealers, providing a convenient long-term instalment payment option to automobile buyers.

As of 30 June 2011, the Group had GEL 40.5 million (US$24.3 million) in gross automobile loans outstanding, accounting for 3.7% of the Group's total gross retail loans. The Bank additionally provides automobile loans to wealth management clients as part of its wealth management business.

Banking cards. The Bank issues debit cards, often with overdrafts, to its retail banking clients in conjunction with universal current accounts, as well as credit cards. The Bank's banking card business has grown to over 610,000 cards outstanding as of 30 June 2011, from approximately 603,000, 537,000 and 667,000 in issue as of 31 December 2010, 2009 and 2008 respectively.

Debit cards. In line with the Bank's segment-based retail strategy, the Bank offers a range of international debit cards to different retail banking client segments: Maestro, VISA Electron, VISA Classic and MasterCard Standard (for all retail banking clients), VISA Gold and MasterCard Gold (for mass affluent retail banking clients) and OneCard VISA Infinite (for wealth management clients). In 2011, the Bank launched the American Express Rewards card (for the mass affluent segment) and the LoveCard, which allows the holder to choose their own personalised card design for all retail banking clients. The Bank also offers overdraft facilities and a variety of additional services to banking card holders, including direct debit, internet banking, telephone banking, SMS banking, utility bills payment and ATM services.

The Bank together with its affiliate, Metro Service+, pursuant to exclusive agreements with the Tbilisi municipal companies, operates the metro and bus transport payment system, including ticket machines activated through 828,203 (as of 31 August 2011) Bank-branded transit contactless cards and intends to issue debit cards with contactless functionality to holders. The exclusive agreements with the Tbilisi municipal companies are due to expire in 2016, with respect to the metro transport system, and 2018, with respect to the bus transport system. The BGH Directors believe that the transport payment system is strategically important for the Bank in order for it to further develop its contactless payments system in Tbilisi and further expand its mass retail banking client base.

Credit cards and overdrafts. The Bank's credit card offering includes Orange card (the first Georgian credit card). The Bank is the exclusive partner of American Express for both acquiring and issuing American Express cards in Georgia. In November 2009, the Bank launched the American Express Gold Card and the American Express Green Card issued in Georgia, and in 2010, the Bank introduced the American Express Blue Card which offers clients financial flexibility and the ability to earn cash back on their spending. In September 2010, the Bank became the exclusive partner of Diners Club International acquiring business in Georgia and an ATM processor for Diners Club International and Discover card transactions. All of the Group's credit card holders are contractually obliged to make minimum payments in respect of at least 10% of the outstanding balance of their monthly credit card statements, subject to a minimum grace period of up to 55 days.

The BGH Directors believe that the Bank's growing credit card offering will substitute POS lending and other general consumer lending products over time.

The Bank was a co-founder of Georgian Card, the first banking card processing centre in Georgia which processes and personalises Visa, MasterCard and American Express cards and provides acquiring services to Diners Club International and Discover card. Georgian Card is currently 71.8% owned by the Bank (the remaining shares are held by Bank Republic (26.5%) and other minority shareholders (1.7%)). Georgian Card currently services the Bank's plastic banking card operations in addition to the plastic banking card operations of four other banks operating in Georgia. Between 2007 and 2009, the Bank invested significantly in the upgrading of Georgian Card's platform, which now utilises Transmaster card processing software developed by TietoEnator.

The Bank also offers its payroll clients short-term unsecured overdraft facilities with repayment required on the maturity date. As of 30 June 2011, the Group had gross credit cards and overdrafts of GEL 120.9 million (US$72.5 million) outstanding, accounting for 10.9% of the Group's total gross retail loans.

Internet, telephone, SMS and e-mail banking. The Bank offers access to its retail banking products and services through the internet, allowing clients to make inter-bank payments to companies or individuals, monitor account balances, transfer funds (within the Bank and to third party accounts), order debit and credit cards and open accounts and savings products. The Bank also offers an SMS-based mobile banking service, allowing automatic delivery of transactional information to clients' mobile phones and selected SMS-based client queries. Clients can also use the mobile banking service to top up their mobile phone air time and receive notifications of consumer loan approvals. E-mails can also be used for sending instructions to the Bank and receiving information on transactions.

Call centre. The Bank has a 24-hour modern client service call centre to provide its retail banking clients with assistance by telephone and by e-mail. The call centre facilitates clients entering into banking transactions over the telephone including, among other things, paying bills, transferring money and making balance enquiries. As of 30 June 2011, the call centre had 32 employees.

Terminal banking. Since September 2010, the Bank has opened 86 self service terminals in Georgia to provide its retail banking clients the opportunity to make utility bill payments and loan repayments at a wider variety of locations. In the six months ended 30 June 2011, the terminals had handled 2.2 million transactions with a total value of GEL 26.3 million. The BGH Directors believe that self-services terminals enable the Bank to run its branch operations more efficiently as they free-up front office employees to assist other clients.

ATM network. The Bank had the largest ATM network in Georgia as of 30 June 2011, comprising 408 ATMs, giving its clients access to an easy and convenient cash withdrawal service. These ATMs also offer the Bank's retail banking clients the opportunity to make utility bill payments and loan repayments, receive remittances and make person-to-person transfers. In addition, clients enrolled in the Bank's payroll programmes can draw down general consumer loans at the Bank's ATMs following receipt of a notification of approval via SMS. In the six months ended 30 June 2011, the Bank's ATMs handled 4.2 million transactions, with a total value of GEL 780.2 million.

Money remittance systems. The Bank currently operates nine international remittance systems which allow retail banking clients to transfer money in and out of Georgia. Three of these international remittance systems (Bistraya Pochta, Interexpress and Leader) were launched by the Bank in the last 18 months. During the six months ended 30 June 2011 and during the year ended 31 December 2010, a total of GEL 807.0 million (US$471.1 million) and GEL 1,528.9 million, respectively, was remitted in and out of Georgia, of which GEL 378.6 million (US$221.0 million) and GEL 724.9 million (US$406.6 million) was remitted through the Bank, representing a 46.9% and a 47.4% market share, respectively.

In 2009, the Bank introduced a new service which allows its clients to receive remittances by contacting an operator in the Bank's call centre and crediting the remittance amounts to the client's account. Following that, in March 2011, the Bank enabled its card members to receive remittances through ATMs. The BGH Directors believe that both of these services enable the Bank to run its branches more efficiently by freeing up the service time of front office employees.

Corporate Banking

Bank of Georgia is a leader in corporate banking, with a market share of 39.0% based on deposits from legal entities as of 30 June 2011. The Bank's corporate banking clients include large corporates and government entities. The Bank provides corporate lending and finance leasing (principally in US Dollars) in addition to offering current and deposit accounts, account administration and cash management services, payroll services, factoring, trade financing and foreign exchange services. As of 30 June 2011, the Bank had 9,504 corporate banking clients in Georgia and the Group's consolidated gross corporate loan portfolio comprised GEL 1,362.9 million (US$817.5 million), while the Group's corporate amounts due to customers comprised GEL 1,254.0 million (US$752.3 million). In the six months ended 30 June 2011, the Group's corporate banking business generated revenue of GEL 69.7 million (US$41.8 million), corresponding to 32.3% of the Group's total revenue.

The Bank operates an integrated client coverage model for its corporate banking clients. Each corporate banking client is assigned a dedicated relationship banker who facilitates and coordinates the client's interaction with the Bank's product specialists, including in the areas of lending, investment banking, trade finance to corporate banking clients, leasing, insurance and retail banking (with respect to payroll services). The Bank offers combined packages of products and services to its corporate banking clients, enabling them to reduce their banking costs and increase efficiency while generating more sales for the Bank.

The key elements of the Bank's corporate banking strategy for the short-to medium-term are to increase its focus on cross-selling, including insurance and other non-banking products and services to increase its integrated client coverage, decrease its portfolio concentration by continuing to focus on mid-sized corporate banking clients, expand its project finance business, further develop sector expertise by introducing regular in-depth research across different industries, introduce investment banking and commodity finance and finance larger borrowings through syndications and club deals. Currently the Bank is focusing on the following sectors which the BGH Directors believe offer growth potential as they are underpenetrated: agriculture, hospitality, healthcare and education. The Bank improved its product offering in 2010 through the introduction of overdrafts on corporate cards, turnover based guarantees, the Energo-credit programme financed by the EBRD, leveraged buyouts and project finance.

Corporate banking products and service

Corporate lending. The Bank's corporate lending activities include the provision of working capital loans, fixed asset financing, revolving credit lines and overdrafts as well as project finance. Corporate banking loans are defined as loans over GEL 833,500 (US$500,000) or the equivalent or loans to borrowers whose annual turnover exceeds GEL 5.0 million (US$3.0 million). Until September 2010, when SME loans were reclassified as retail loans, it also included SME loans. The Bank offers a wide range of corporate loans in Lari and foreign currencies, principally US Dollars, including short-term loans for working capital purposes and overdrafts in addition to medium-term loans and long-term loans and project finance. 16% of the Bank's corporate loans to clients are working capital revolving credit lines, with a majority of such loans having maturities of one year or less. Subject to general economic conditions, as demand for longer-term financing increases, the Bank intends to increase its maturity limits in respect of existing clients and other high credit quality borrowers commensurate with the availability of longer-term funding. The Bank also provides credit lines to developers to finish construction projects where the sale of the property under development is guaranteed by the Tbilisi municipality.

The following table sets out the Group's corporate loan portfolio (gross of allowance for impairment losses) by economic sector of borrower as of the dates indicated (including corporate banking loans of BNB for the periods indicated and BG Bank prior to February 2011):

	As of 30 June			As of 31 December					
	2011			2010		2009		2008	
	(thousands of Lari)	*(thousands of US$)*[1]	*(% of total corporate banking loans)*	*(thousands of Lari)*	*(unaudited) (% of total corporate banking loans)*	*(thousands of Lari)*	*(% of total corporate banking loans)*	*(thousands of Lari)*	*(% of total corporate banking loans)*
Retail and wholesale trade	300,925	180,519	22.1%	302,175	21.2%	282,942	30.1%	318,705	30.5%
Construction and real estate	286,379	171,793	21.0%	216,690	15.2%	150,993	16.1%	118,539	11.3%
Industry and state[2]	200,853	120,488	14.7%	66,975	4.7%	104,780	11.1%	100,915	9.7%
Consumer goods	180,106	108,042	13.2%	140,319	9.9%	127,315	13.5%	142,958	13.7%
Pharmaceuticals and healthcare	130,093	78,040	9.5%	16,719	1.2%	14,646	1.6%	16,917	1.6%
Energy	127,358	76,400	9.3%	319,909	22.5%	75,341	8.0%	100,934	9.7%
Other[3]	137,140	82,268	10.2%	361,763	25.3%	183,797	19.6%	245,991	23.5%
Total corporate banking loans, gross[4]	**1,362,854**	**817,550**	**100.0%**	**1,424,550**	**100.0%**	**939,814**	**100.0%**	**1,044,959**	**100.0%**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

(2) "Industry and state" includes metals, mining, machinery manufacturing and other heavy industry, as well as government agencies and state owned enterprises.

(3) "Other" comprises loans to borrowers with diversified business activities that cannot be readily categorised into a particular sector.

(4) Loans to SMEs are included in corporate for 2008 and 2009 and included in retail for 2010 and for the six months ended 30 June 2010 and 2011.

The Group's gross corporate loan portfolio declined to GEL 1,362.9 million (US$ 817.5 million) as of 30 June 2011, or 54.6% of the Group's total gross loans to customers, compared to GEL 1,424.6 million, or 56.4% of total gross loans to customers as of 31 December 2010, GEL 939.8 million, or 51.4% of total gross loans to customers as of 31 December 2009 and GEL 1,045.0 million, or 48.7% of total gross loans to customers, as of 31 December 2008, respectively.

For the six months ended 30 June 2011, the Group had net interest income from loans to corporate banking customers of GEL 37.3 million (US$ 22.4 million), compared to GEL 35.7 million for the six months ended 30 June

2010, respectively. For the year ended 31 December 2010, the Group had net interest income from loans to corporate banking customers of GEL 74.8 million, compared to GEL 48.8 million and GEL 60.8 million, respectively, for the years ended 31 December 2009 and 2008.

The Group's ten largest corporate banking group borrowers accounted for 15.4% of the Group's total consolidated loans to customers gross of allowance for impairment losses as of 30 June 2011 as compared to 15%, 11% and 11% of its total loans to customers gross of allowance for impairment losses as of 31 December 2010, 2009 and 2008, respectively.

Deposit taking. The Bank offers a range of corporate deposit products in Lari and in foreign currencies, including multicurrency current accounts, term deposits and demand deposit accounts. As of 30 June 2011, the Group had a total of GEL 1,254.0 million (US$752.3 million) in current accounts, term deposits and demand deposits from corporate banking customers, representing 56.3% of the Group's total amounts due to customers as of that date, as compared to GEL 1,229.3 million, GEL 733.9 million and GEL 774.1 million at 31 December 2010, 2009 and 2008, respectively.

The Group's ten largest corporate depositors accounted for 23% of the Group's total consolidated amounts due to customers as of 30 June 2011 as compared to 18%, 17% and 27% of its total amounts due to customers as of 31 December 2010, 2009 and 2008, respectively.

The following table sets out the Group's total amounts due to corporate banking customers as of the dates indicated (including corporate banking customers of BNB for the periods indicated and BG Bank prior to February 2011):

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of US Dollars)*(1)	*(unaudited) (thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Total amounts due to corporate banking customers(2)	1,254,002	752,251	1,229,322	733,923	774,140

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

(2) Total amounts due to corporate banking customers include current accounts, term deposits and demand deposits to the Group's corporate banking customers. Amounts due to SMEs are included in corporate for 2008 and 2009 and included in retail for 2010 and for the six months ended 30 June 2010 and 2011.

Payroll services. Payroll services enable employers to reduce the cost of paying salaries to their employees by transferring salaries directly to their employees' bank accounts with the Bank. The employees are able to withdraw multiple currencies using plastic payroll cards, all of which are part of either the MasterCard or VISA International system, at any branch of the Bank and any ATM domestically or internationally that accepts Visa or MasterCard cards. The Bank currently offers payroll services to over 2,000 companies. In addition to the fees which the Bank charges its corporate banking clients for providing payroll services, the payroll services and corporate cards provided by the Bank to its corporate banking clients generate income for the Bank's retail banking segment. The Bank's payroll services enable it to cross-sell retail banking services and products to its clients' employees. As of 30 June 2011, the Bank's retail banking client base included more than 169,000 individuals who are employees of companies that receive payroll services as part of the Bank's corporate banking business. See "— Retail Banking — Retail Banking Products and Services".

Trade finance. The Bank is one of the leading trade finance banks in Georgia and won the following trade awards in 2010: "Best Trade Finance Provider in Georgia" (awarded by Global Finance); "Best Global Trade Finance Provider Issuing Bank in Europe and Central Asia for SME Financing" (awarded by IFC); "Most Active Issuing Bank in Georgia" (awarded by EBRD) and "Successful Business Partner in Trade Finance Operations" (awarded by Commerzbank). It is active in both domestic and international operations and offers trade finance services worldwide through its network of correspondent banks and international commercial banks as well as the Global Trade Finance Programme with IFC and the Trade Facilitation Programme with EBRD. It aims to act as adviser to its clients throughout the lifecycle of a trade finance operation.

The Bank's trade finance products currently include pre-export financing, import financing, issuing, advising, confirming and discounting letters of credits, stand-by letters of credit, and guarantees, documentary collections and factoring. It is focusing on growing its market share and developing innovative products.

As of 30 September 2011, the Bank had trade finance limits from non-Georgian banks amounting to, in aggregate, GEL 230.9 million (US$ 139.0 million), from Commerzbank, UBS, Citibank, BNP Paribas, JP Morgan Chase, Ziraat Bank, Atlantic Forfaiting, EBRD, IFC and ADB.

In September 2008, the Bank became the first Georgian bank to join IFC's Trade Finance Programme, which provided it with a trade finance line of US$40.0 million for issuing guarantees against its clients' trade transactions.

As of 30 June 2011, the Bank had long-standing relationships with export credit agencies, such as US Export-Import Bank, SACE, Euler Hermes (AKA Bank), and EGAP (Czech Export Bank).

Leasing services. The Bank provides finance leasing services through its wholly-owned leasing subsidiary, GLC. A finance lease comprises a commercial arrangement whereby the Bank purchases (as lessor) an asset that the client (the lessee) requires and leases that asset to the client for a fixed long-term period in return for rental payments that cover the cost of the asset and provide interest on the principal amount paid for the asset. The risks relating to ownership of the leased asset remain with the client during the term of the lease. The acquisition of GLC in 2004 has enabled the Bank to offer leasing services to its corporate banking clients and has provided cross-selling opportunities with other corporate banking products and services and insurance products and services. As of 30 June 2011, the total value of GLC's leasing portfolio was GEL 61.8 million.

Remote banking. Corporate banking clients can access a range of remote banking products including internet, telephone and SMS banking, utility bill payments, online payments, direct debits, payroll services and standing orders through a dedicated remote banking platform.

Treasury operations. The Bank offers a range of treasury operations including foreign currency conversion, trading in securities and other products including hedging.

Business card services. The Bank offers corporate Visa and MasterCard banking cards and intends to start offering American Express Corporate cards to corporate banking clients.

Wealth Management

The Bank's wealth management business attracts deposits from wealthy local and international clients (including through its representative offices in London and Tel Aviv) as a source of funds for the Bank's corporate and retail lending. The Bank expects to begin marketing investment products, starting with a local and foreign currency fixed-income instrument, during 2012 in order to add an additional fee-based revenue stream to its wealth management business. The Bank aims to establish the leading wealth management franchise in Georgia and establish itself as one of the preferred offshore private banking providers for its international clients in the United Kingdom and Israel. The Bank will consider opening more representative offices internationally in the future. The Bank's private bankers are trained to identify the specific needs of their clients and to offer a variety of financial and insurance products and a high level of personalised service.

As of 30 June 2011, the Group's current accounts (including demand deposits) and term deposits from wealth management customers were GEL 304.4 million (US$182.6 million), or 13.7% of the Group's total amounts due to customers, as compared to GEL 261.6 million, GEL 163.1 million and GEL 98.6 million as of 31 December 2010, 2009 and 2008, respectively.

The following table sets out the total amounts due to wealth management customers as of the dates specified:

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(unaudited) (thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*
Total amounts due to wealth management customers[2]	304,374	182,588	261,638	163,067	98,574

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

(2) Total amounts due to wealth management customers include current accounts, time deposits and demand deposits to the Group's wealth management customers. This item does not include amounts due to wealth management customers who are customers of the Group's retail banking business.

The Bank's core wealth management product is the multi-currency OneCard Infinite (Visa platform) debit card, which is designed to satisfy all of the current and savings account needs of the client with a single packaged product.

The OneCard Infinite enables cardholders to link the same card to up to four accounts in different currencies (Lari, US Dollars, Euros and Pounds Sterling), with comprehensive online and SMS banking functionality, an attractive interest rate on daily balances in all currencies, credit limits similar to those of a regular current account and expeditious credit line/overdraft approval.

The Bank offers its wealth management clients relatively high interest rates on term deposits with maturities of up to 60 months and demand deposits in Lari, US Dollars, Euros, Pounds Sterling and other currencies. Additionally, clients receive health, property and life insurance through ABCI, and brokerage, custody and portfolio management services through BG Capital. The Bank also offers personalised financial planning and lifestyle management services (including concierge services, information services, utility payment services and travel arrangement services) to its wealth management clients.

The following table sets out the Group's wealth management loans (gross of allowance for impairment losses), by type of loan offered as of the dates specified:

	As of 30 June			As of 31 December					
	2011			2010		2009		2008	
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(% of total wealth management loans)*	*(thousands of Lari)*	*(unaudited) (% of total wealth management loans)*	*(thousands of Lari)*	*(% of total wealth management loans)*	*(thousands of Lari)*	*(% of total wealth management loans)*
Mortgage loans	17,243	10,344	67.7%	21,158	53.2%	29,417	61.8%	34,351	62.6%
General consumer loans	6,336	3,801	24.9%	16,448	41.3%	12,852	27.0%	13,695	25.0%
Automobile loans	637	382	2.5%	1,027	2.6%	2,704	5.7%	3,384	6.2%
Other (including overdrafts)[2]	1,244	746	4.9%	1,175	2.9%	2,655	5.5%	3,419	6.2%
Total wealth management loans, gross	**25,460**	**15,273**	**100.0%**	**39,808**	**100.0%**	**47,628**	**100.0%**	**54,849**	**100.0%**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

(2) "Other" comprises overdrafts, other plastic banking cards and private banking loans with different terms from the standard terms used by the Group for wealth management loans.

The Bank offers its wealth management clients Visa, MasterCard and American Express (Blue, Green, Gold, Platinum and Centurion Cards). The Bank has distribution agreements with American Express for American Express Cards.

Beginning in 2008, the Bank introduced and started to offer to its wealth management and mass affluent clients structured deposit products offering exposure to commodities (comprising West Texas Intermediate WTI Crude Oil and Spot Gold) and equities (comprising a basket of international large capitalisation equities) and US Dollar-Euro exchange rate hedging. All structured deposit products offer full capital protection and, in some cases, guaranteed coupons to investors.

The Bank is planning to introduce transferable certificates of deposit to enable wealth management and institutional clients to invest in the Bank's tradable deposits, and a mutual fund that will invest in local and foreign currency denominated short- and medium-term debt instruments issued in Georgia and neighbouring countries.

Synergistic Businesses

Insurance and Healthcare

Insurance

Bank of Georgia provides insurance-related and healthcare products and services through its wholly-owned subsidiary, ABCI, which was formed out of a merger of BCI and Aldagi. Aldagi, itself, was formed in 1990 as the first private insurance company in Georgia. The BGH Directors view insurance as a growth opportunity for the Group. According to NBG figures, from 2006 to 2010 the total Georgian insurance market (measured by gross written premiums) increased at a CAGR of 49.1%. The general growth trend has been supplemented by the introduction of Georgian government subsidies in 2007 for private health insurance for low income families, teachers and among others. Despite this growth, health insurance claims accounted for less than 10% of total healthcare spending in 2009, and the overall insurance penetration rate was only 1.7% as of the end of 2009 according to the data published by Ministry of Labour Health and Social Affairs of Georgia and by the NBG. In addition, insurance represents an opportunity for cross-selling to the Bank's client base, leveraging the Bank's 143 branches and 1,736 sales staff.

ABCI is a leader in the Georgian life and non-life insurance markets, based on a market share of 19.5% of the life and 16.8% of the non-life insurance markets, as of 30 June 2011 (based on gross written premiums), compared to a market share of 23.2% and 18.4%, respectively, as of 31 December 2010, a market share of 35.9% and 18.6%, respectively, as of 31 December 2009 and a market share of 32.0% and 22.6%, respectively, as of 31 December 2008 (in each case according to statistical information published by the NBG). ABCI's market share in both the life insurance and non-life insurance markets decreased in 2010 primarily because ABCI stopped providing life insurance and non-life insurance products to certain categories of client where it was less profitable due to intensive price competition in those markets and opting not to participate in one of the rounds of the state-subsidised health insurance programmes (due to the Bank Management Board's belief that this may not be profitable). ABCI provides a wide range of corporate and consumer insurance and related products in the following areas: property and casualty; liability, including general third party liability, motor third party liability, carriers' liability, professional indemnity, bankers' blanket bonds, product liability and employer liability; personal risks, including health insurance, personal accident, travel and term life insurance, performance bonds and guarantees and agriculture. ABCI cross-sells its insurance products with the Bank's retail and corporate banking products. ABCI operates Aldagi Assistance, a 24-hour telephone helpline for its health insurance clients. ABCI cooperates with a number of internationally renowned reinsurers and adheres to strict reinsurance policies which are designed to ensure that ABCI has sufficient reinsurance to support its business and any new insurance products or product lines that it offers. Within Georgia, insurers are regulated by the NBG. Insurers must maintain regulatory capital of at least GEL 1.0 million or GEL 1.5 million, depending on the type of licence, and have to comply with insurance reserve placement requirements (being insurance reserves that the NBG requires are placed in banking institutions, with limitations on the concentration of such reserves in a single financial institution).

On 14 December 2011, ABCI announced that it had acquired the assets and liabilities of Partner, the twelfth largest insurance company in Georgia as of 30 June 2011. As of 30 June 2011, Partner had a market share of 1.3% of the non-life insurance markets in Georgia (based on gross written premiums). Pursuant to the transaction, ABCI has acquired total assets in the amount of GEL 6.0 million, of which insurance related assets account for GEL 5.5 million and liabilities in the amount of GEL 6.7 million.

Healthcare

As with insurance, the Group's healthcare business seeks to address a market opportunity within the growing Georgian economy. Historically, the healthcare market in Georgia has been fragmented with a limited number of managed healthcare chains operating in the country and many of the hospitals and clinics are older, Soviet-era facilities. Healthcare spending has been increasing over the last ten years and, in 2009, represented GEL 1.8 billion (US$1.1 billion), according to the National Health Accounts as published by the Ministry of Labour, Health and Social Affairs of Georgia.

From 2006, until December 2011, My Family Clinic has been expanding to operate five outpatient clinics and ABCI (its parent company) has been operating one hospital (an inpatient centre) in Georgia. As announced on 6 December 2011, My Family Clinic completed the construction of, and opened, four healthcare centres in western Georgia in December 2011, with a total of 60 beds. These centres provide the full range of services offered at outpatient clinics as well as planned surgical treatments.

Operating a chain of healthcare centres within a region allows the Group to make cross-referral of patients between the Group's inpatient and outpatient clinics. In addition, ABCI is able to hedge its claims expenditure on health insurance by converting claims expenditure into revenue for its health care business. My Family Clinic is in the process of developing two additional healthcare centres in the western part of Georgia, where the majority of ABCI's health insurance clients under a government programme are concentrated. In the six months ended 30 June 2011 and in the year ended 31 December 2010, claims expenditure under ABCI's health insurance programme amounted to GEL 13.3 million and GEL 25.7 million, respectively, of which only 23.9% and 22.1%, respectively, was captured as revenue in the Group's existing six health care centres. My Family Clinic's five outpatient clinics provide a full range of outpatient services including comprehensive laboratory tests and x-ray facilities, among others.

Pursuant to a Georgian government healthcare project (the **"Healthcare Project"**), ABCI has agreed to construct six healthcare facilities, (of which four healthcare facilities have been completed and are operational as of 6 December 2011) through its subsidiary, My Family Clinic, and the government of Georgia has agreed to pay ABCI healthcare insurance premiums under the government of Georgia subsidised health insurance programme for the socially vulnerable. The two healthcare facilities, including one hospital with 94 beds in Imereti, Georgia's largest region, are expected to be completed in 2012. On 24 October 2011, ABCI obtained a seven-year Export Credit Facility in the amount of US$11.9 million from ING Bank for the project, guaranteed by the Bank. The interest rate payable under the Export Credit Facility is 1.90% plus US dollar LIBOR plus any Mandatory Cost (being the percentage rate per annum calculated by the Lender to cover the cost of compliance with the Bank of England and FSA requirements or the requirements of the European Central Bank) per annum. The Export Credit Facility is due for repayment in 14 equal instalments payable semi-annually, starting not later than 20 months after 24 October 2011 and ending no later than the date 78 months after the first repayment. In the event that ABCI does not complete certain Healthcare Project milestones within a set period of time, the government of Georgia has the right to terminate the Healthcare Project and to call on guarantees to the total value of GEL 1.65 million (US$1.0 million) given by ABCI in respect of the project.

Affordable Housing

There is currently unsatisfied demand for affordable housing in Tbilisi (which has depreciated housing stock and an average of 3.7 residents per property, according to Paragon LLC (a real estate consulting company in Georgia) and a lack of investment as a result of the three leading real estate developers in the Georgian market ceasing construction and trading during the downturn. The Group's wholly owned subsidiary, SBRE, is engaged in real estate development and also offers property management, project management and brokerage services. The Bank has contributed to SBRE certain real estate assets that it repossessed during the recent financial crisis. In order to improve the liquidity of the repossessed real estate assets, stimulate the Group's mortgage lending business and to capitalise on the market opportunity in the affordable housing segment in Georgia, the Group intends to develop, sell and/or lease such real estate assets through SBRE. The Group intends to outsource the construction and architecture works and focus on project management and sales as it believes that the Bank's well-established brand name and superior distribution channels (including the 143 branches and 1,736 strong sales force it had as of 30 June 2011) will assist it in marketing its properties and mortgages. In the pilot project of building and selling small-format apartments demand was high supporting price increases from the initial US$850 per square metre to US$1,000 per square metre. In the future, the Group does not intend to purchase additional real estate but may acquire it through repossessions.

Non-Core Businesses

In addition to its operations in Georgia, the Group provides retail banking and corporate banking services in Belarus, brokerage and investment banking business in Belarus and Ukraine and has a number of non-core investments in Georgia. In the six months ended 30 June 2011, the Group's non-core businesses generated 15.5% of the Group's total revenue.

Belarus banking operations

The Group's Belarus banking business is operated through its subsidiary BNB, which was one of the first privately owned commercial banks in Belarus, established in 1992. As of 30 June 2011, the Group owned a 79.99% stake in BNB. BNB offers retail and corporate banking services principally to SMEs (being SMEs in Belarus who have a total annual turnover of less than GEL 8.3 million (US$5.0 million) or the equivalent), micro-loan clients and middle-income retail banking clients. As of 30 June 2011, BNB had total assets of GEL 134.9 million (US$80.9 million), total equity of GEL 41.9 million (US$25.1 million) and net income of GEL 4.9 million (US$2.9 million). BNB accounted for 7.7% of the Group's revenue and 3.3% of its total assets as of 30 June 2011. BNB is profitable, having made a net profit of GEL 4.9 million in the six months ended 30 June 2011, and the Bank aims to increase BNB's ROAE, with a view to an eventual exit from the business in the future.

Brokerage and Related Services

The Group conducts its brokerage and investment banking business in Georgia through its subsidiary, BG Capital. BG Capital provides equity research, sales, execution and capital raising advisory services to private and institutional clients. BG Capital maintains a limited proprietary book of selected equities of GEL 1.0 million as of June 2011 and fixed income securities. The Bank believes that its Georgian brokerage and investment banking services provide synergies with its strategic corporate banking and wealth management operations. In order for the Group to focus on its strategic businesses, BG Capital is in the process of exiting from its brokerage operations in Ukraine and Belarus. Accordingly, in November 2011 the Bank began proceedings to voluntarily wind-up BG Capital, Ukraine and BG Capital, Belarus.

Liberty Consumer

The Group owns a portfolio of investments in Georgian businesses engaged in consumer-driven sectors and business services though Liberty Consumer, a Georgia-focused investment company in which the Bank held a 65% stake as of 30 June 2011. Liberty Consumer's strategy is to sell its equity interests in its portfolio companies in the short-to medium-term, following which the net proceeds will be distributed to the shareholders of Liberty Consumer.

Distribution Network

The Bank has a multi-faceted distribution network for its clients, which includes full-service branches, service centres, smaller-scale sales outlets, ATMs, remote banking as well as outlets located at various third party businesses, including, for example, supermarkets and auto dealerships.

Branches

As of 30 June 2011, the Bank had 143 branches in Georgia, including full-service flagship branches, service centres and smaller-scale sales outlets, as compared to 142, 141 and 151 as of 31 December 2010, 2009 and 2008, respectively. With the view to increasing branch efficiencies, between June 2010 and 30 June 2011 the Bank has successfully reduced the levels of back office functions at 94 branches. Since December 2011, the Bank has also operated nine Express service points that are small-format service points, providing clients with ATM and self-service terminal services and access to internet banking facilities. The Express service points also enable clients to open small deposit accounts and receive low value cash loans instantly, thereby reducing the number of low value transactions taking place in branch and allowing employees in branch to focus on selling higher value products and services, thereby enhancing efficiency in branch. See "— Strategic Businesses — Retail Banking".

Terminals

As of 30 June 2011, the Bank had 86 self service terminals in Georgia to provide its retail banking clients the opportunity to make utility payments and credit repayments at a wider variety of locations.

ATMs

The Bank had the largest ATM network in Georgia as of 30 June 2011, comprising 408 ATMs. For further information see, "Strategic Businesses — Retail banking — ATM network".

Remote Banking

In May 2008, the Bank launched a new universal remote banking platform for multiple communication channels (internet, telephone, SMS and e-mail-based banking services) which enables clients to remotely perform a wide range of transactions. See "Strategic Businesses — Retail banking — Internet, telephone, SMS and e-mail" above. As of 30 June 2011, 82,925 retail banking clients and 4,334 corporate banking clients are registered to use the Bank's internet banking services and 153,274 retail banking clients and 2,508 corporate banking clients are registered to use the Bank's SMS-based mobile telephone banking services.

Information Technology

The Bank views IT as an integral part of its daily operations and is committed to modernising its existing information technology infrastructure and continuing to invest in information technology in order to improve service and efficiency. The Bank seeks reliability, safety, quality, efficiency and scalability in its information and computer systems. All major IT infrastructure components used by the Bank are clustered. The Bank is considering further enhancements of its redundancy and disaster recovery arrangements, and is currently rolling out a remote data backup centre. The Bank has modernised its core IT system over the past three years in order to increase its capacity, improve fault tolerance and reduce downtime. The Bank currently utilises a number of high-grade software systems, including the Va-Bank core banking system (developed by FORS, a Russian software vendor) based on Oracle technology, a CISCO platform for the Bank's call centre and CRIF/Strategy One, a credit-scoring and workflow system used by the Bank for consumer lending. In addition, in 2006, Georgian Card migrated to the Transmaster card processing system (developed by Tieto Enator). In 2008, the Bank launched a new universal remote banking platform for multiple communication channels (internet, fixed line and mobile telephone) based on customised software developed for the Bank by ARBES. SUN Microsystems hardware is used for the database servers of the core banking system and all other applications are operating on HP Intel hardware. The Bank was the first institution in Georgia to purchase a high-grade processor and storage system. In October 2009, the Bank signed an agreement with CRIF Decision Solutions to provide and develop the Bank's loan origination systems, namely StrategyOne and CreditFlow, in order to automate and optimise their retail application processes. StrategyOne is intended to assist the Bank in identifying the most profitable clients and managing risks by automating and standardising its decision-making processes. CreditFlow helps automate internal workflows by orchestrating manual activities and business rule execution, connecting participants and integrating all systems involved in order to meet its end-to-end origination process needs. The Bank also uses an automated loan collection system involving Clever, a software platform developed by CRIF, to enable the Bank to manage the overdue loans portfolio effectively and improve debt collection rates.

In October 2010, the Bank signed an agreement with Softscape for the deployment of a new automated human resource management system to assist the Bank in identifying its workforce potential and to provide a useful analytical tool in relation to data relating to employee performance and development. In the future, this may be rolled out across the Bank's subsidiaries.

The Bank invested GEL 5.2 million (US$3.1 million) in information technology for the six months ended 30 June 2011 and GEL 5.4 million, GEL 4.5 million and GEL 13.0 million in the years ended 31 December 2010, 2009 and 2008, respectively.

Property

On 15 November 2011, the Bank moved to a new head office at 29a Gagarin Street, Tbilisi, 0160, Georgia, following the completion of renovation works which cost GEL 31.1 million. The Bank previously rented 12 properties for back office employees in different parts of Tbilisi and spent GEL 1.1 million on rent and communication services in the year ended 31 December 2010. The new, larger head office building will be able to accommodate all back office employees and functions in one place, which the BGH Directors believe will lead to efficiency savings on rent and communication expenditure. The Bank owns its new head office, as well as its old head office (which is located at Freedom Square, 3 Pushkin Street, Tbilisi, 0105, Georgia). ABCI is expected to rent the old Bank head office.

The Bank either owns or leases all of the premises it uses for banking and other services. As of 30 June 2011, the total net book value of the investment property owned by the Group on a consolidated basis was GEL 99.4 million (US$59.6 million). Currently, there are no liens or encumbrances over any material real estate and land owned by the Bank.

Intellectual Property

Bank of Georgia has registered its principal logos in Georgia. In addition, the Bank has registered all principal domain names related to the Bank's business. In September 2008, the Bank applied to the World Intellectual Property Organisation (**"WIPO"**) for registration of its logos in all the WIPO member states, except for the United Kingdom, Belarus, Ukraine and Israel for which the Bank filed individual applications to the relevant authorities for the registration of its logos. As of 14 December 2010, around 20 WIPO countries have registered the Bank's trademark and the application process is ongoing in the other WIPO member states. WIPO (Israel) informed the Bank that its application for registration of the trademark containing the Bank of Georgia lion together with the words "Bank of Georgia" had been refused. The Bank is currently appealing this decision. WIPO (Israel) is also currently considering registering Bank of Georgia's trademark with the Bank of Georgia lion only (i.e. without the Bank of Georgia reference). The Bank's individual applications for the registration of its trademarks to each of the United Kingdom, Belarus, Ukraine and Japan were successful. None of the Bank's intellectual property assets are considered to be material to the Bank's business.

PART XIV

INDUSTRY

Introduction

The Georgian banking sector consists of Georgian banks, non-bank depository institutions and microfinance organisations. Non-bank depository institutions and microfinance organisations provide only limited banking services, such as accepting deposits from and issuing loans to their members only (in the case of non-bank deposition institutions), or issuing micro-loans (in the case of microfinance organisations), while banks provide a wide range of banking services. The NBG is the regulator of the whole financial sector and it supervises the banking sector, the securities market and insurance companies. The responsibilities of the NBG relevant to the supervision of commercial banks include issuing licences, establishing mandatory financial ratios, regulating accounting and reporting rules and supervising compliance with laws and regulations. The NBG is Georgia's central bank and it establishes minimum reserve requirements for commercial banks. Among its other responsibilities, the NBG establishes Georgian monetary policy, controls inflation, issues money and ensures effective functioning of payment systems.

As of 30 September 2011, there were 19 commercial banks registered in Georgia that have general banking licences enabling them to perform banking transactions. According to information published by the NBG (based on data provided to the NBG by Georgian banks), as of 30 June 2011, the aggregate assets of all banks in Georgia were approximately GEL 11.2 billion, with the five largest banks accounting for approximately 78.5% of such assets.

History of the Georgian Banking Sector

The Georgian banking sector was transformed immediately upon Georgia's independence from the Soviet Union in 1991, when a two-tier banking system was introduced: the former GosBank (State bank of the Soviet Union), Georgia branch became the NBG and various commercial banks were established in mid-1991. Subsequently, the five state-owned Georgian banks (Eximbank, Savings Bank, Agromretsvbank, Mretsvmshenbank and Binsotsbank) were fully privatised in the period from 1993 to 1995.

The NBG was established as an independent supervisory, regulatory and monetary body although many of the practices in place when it was part of the Soviet Union remained largely unchanged. In particular, it was still directly influenced by the government of Georgia and was required to finance the budget deficit and continued to provide indirect loans to state-owned enterprises in Georgia.

During the period from 1991 to 1994, Georgia experienced intense political and economic turmoil resulting from the break-up of traditional trade relations within the Soviet Union, followed by a military coup, a civil war and two secessionist wars. As a result, Georgia experienced one of the deepest economic recessions among the former Soviet Union states. By 1994, the majority of commercial banks were in financial difficulty and, as a result of hyperinflation, bank deposits had lost almost all of their value.

On 23 June 1995, Parliament adopted the Organic Law of Georgia on the National Bank of Georgia (the **"1995 NBG Law"**), and on 23 February 1996, it adopted the Law of Georgia on the Activities of Commercial Banks (the **"Banking Law"**), which strengthened the independence of the NBG and granted it more authority to suspend the licences of those banks which failed to meet prudential regulations. The NBG's banking supervision policy was based on the "25 Key Principles of Efficient Banking Supervision" developed by the Basel Committee on Banking Supervision. Furthermore, new rules and procedures to regulate banking activities were introduced that envisaged the creation of a new system of assets classification in order to: identify credit risks with greater precision, enhance external and internal auditing functions and eliminate conflicts of interests in banking activities.

In 1997, further banking industry regulations came into force. The NBG lowered reserve requirements in an attempt to encourage greater financial intermediation in Georgia. At the same time, the minimum capital adequacy ratio was increased from 8.0% to 10.0% of total assets. In January 1997, the NBG announced its plan to gradually increase the minimum capital requirement for commercial banks to GEL 5.0 million by the end of 2000, in order to promote further consolidation of the banking sector. Throughout 1998, the NBG pursued this objective by revoking the licences of banks which failed to meet minimal capital requirements and other prudential regulations.

The Russian financial crisis, which occurred in 1998, led to a devaluation of the Lari by 40.0%, a consequent reduction in commercial bank deposits, and a significant slowdown in GDP growth. The NBG introduced stricter prudential regulations in order to stabilise the Georgian banking sector and prepared a plan to assist banks to maintain their liquidity by offering short-term liquidity loans.

In 1999, new accounting rules consistent with international accounting standards were introduced and minimum capital adequacy requirements were further strengthened from 10.0% of total assets, to 12.0% of risk-based assets of Tier I capital and 15.0% for total capital. Currently, minimum capital adequacy requirements are that Tier I capital to risk weighted assets must not be less than 8% and total capital to risk weighted assets must not be less than 12%. Furthermore, the NBG made a recommendation that banks should appoint international firms to carry out external audits from February 1999.

In 2000, the NBG introduced the CAEL (Capital, Assets, Equity and Liquidity) methodology for the assessment of the financial condition of operating commercial banks. This system, which has evolved into and is now known as the CAMEL (Capital, Assets, Management, Equity and Liquidity) system, is routinely used by the regulator to assess the performance of banks and to develop a set of recommendations as to what measures need to be taken in order to induce improvements in the financial and operating results of the banking institution in question.

A number of reforms were undertaken by the NBG in 2001. The NBG introduced rules for asset classification and provisioning, and utilisation of loan loss reserves by Georgian commercial banks that defined criteria for, among other things, a risk-weighted classification of bank loans (including contingent liabilities), inter-bank deposits, foreclosed collateral and the provisioning of loan loss reserves. In order to avoid conflicts of interest and prevent improper use of managerial privileges, a decree dealing with conflicts of interest and related party transactions in commercial banks was approved by the NBG in 2001. Furthermore, during the same year, the NBG introduced internal audit requirements for commercial banks, obliging them to establish internal audits in order to control their banking operations.

In 2002, the NBG adopted a regulation on "Fit and Proper Criteria" for commercial bank administrators. The "Fit and Proper Criteria" has been amended several times during the period from 2002 to 2008 in order to provide clarification and rules governing its application.

To gradually increase the level of capitalisation and move towards European standards, in 2003 the NBG increased the minimum amount of required capital for Georgian commercial banks to GEL 12.0 million. During the same year, the NBG circulated an official letter to commercial banks requesting that they begin to introduce the best corporate governance practices based on the 1999 OECD Corporate Governance Principles.

During 2004 and 2005, the NBG continued to amend various regulations to facilitate the development and stability of the Georgian banking sector. The NBG relied principally on the key principles published by the Basel Committee on Banking Supervision.

In 2006, a restriction on the ownership of more than 25% of a Georgian commercial bank was repealed in order to promote investments in the banking sector, although the acquisition of more than 10%, 25% and 50% of a commercial bank in Georgia still requires NBG consent and compliance with certain eligibility criteria. The same year, certain measures were taken to increase the transparency of the banking sector, including obliging commercial banks to publish quarterly financial reports, thus promoting the transparency of the financial condition of the banks and providing other types of information to interested parties.

In 2007, the NBG approved the Manual on On-Site Supervision of Commercial Banks and the Manual on Off-Site Supervision and Analysis by the CAEL System became effective.

The NBG approved comprehensive guidelines on risk management in Georgian commercial banks in 2008. As a result of such guidelines, each commercial bank is required to analyse its risk management systems, design a plan of action aimed at compliance with the guidelines and designate a person or group of persons responsible for preparing such an action plan. As of 31 December 2008, there were 20 licensed commercial banks in Georgia.

In 2008, major reforms were carried out in the financial sector regulatory system of Georgia. Based on the amendments to the 1995 NBG Law in March 2008, the Financial Supervisory Authority (**"Georgian FSA"**) was established to take over all supervisory functions of the NBG related to commercial banks and non-bank deposit institutions, except for the supervision of the minimum reserve requirements. The Georgian FSA also had the authority to supervise the securities market and insurance companies. According to the 1995 NBG Law, subject to the Georgian FSA implementing new rules and regulations to replace those that were previously adopted by the NBG and the former regulators of the securities and insurance sectors, the previous rules and regulations were to remain in force until 1 January 2010.

On 24 September 2009, Parliament adopted a new Organic Law of Georgia on the National Bank of Georgia (the **"NBG Law"**) which came into effect on 12 October 2009 and which led to the liquidation of the recently established Georgian FSA (as of 1 December 2009) and the transfer of the Georgian FSA's regulatory and supervisory functions back to the NBG. The NBG became the legal successor of the Georgian FSA. However, all of the licences, permits and registrations issued by the Georgian FSA remain valid. The NBG Law provides that, unless and until the NBG implements new rules and regulations to replace those that were previously adopted by the Georgian FSA, the Georgian FSA rules and regulations will remain in force. As a result, there may be some confusion as to which rules and regulations are in force at any one time. In this Prospectus, Georgian FSA rules and regulations that currently remain in force are referred to as NBG/ Georgian FSA rules or regulations.

Various bylaws were revoked and replaced in 2010 as the NBG tried to revise legislation that it, and other former regulators of the financial sector, had passed. In May 2010, a new settlement system was introduced in IBAN format, which will become mandatory for payments starting 1 January 2013. In addition, in December 2010 a new payment and securities system (GPSS) was introduced, which comprises a real time settlement (RTGS) and securities settlement (CSD) module. Among other things, in 2010, the NBG continued efforts to harmonize the financial reporting of the commercial banks with international standards. A new rule on the External Audit of Commercial Banks was adopted in October 2010, which, according to NBG, is in full compliance with international audit standards and regulates relations between regulators and external auditors.

In May 2011, the NBG adopted the rule on Supplying the Customers with Necessary Information During the Provision of Banking Services by Commercial Banks which applies to contracts with a total value of GEL 50,000 or less. This new regulation, among other things, requires commercial banks to provide, in customers' contracts, true, comprehensible and complete information regarding the bank's products, including all costs related to credits and deposits, rules on calculation of effective interest rates, information on currency risks, procedures of amending contracts.

In June 2011, in a move to increase competition the NBG introduced consumer protection regulations in order to improve the transparency of the retail product offerings of banks operating in Georgia. It also capped the prepayment fees that banks can charge their clients at 2%. The latter measure is effective until 1 January 2013.

Overview of the Georgian Banking Sector

The Georgian banking sector has experienced rapid growth in recent years. However, in 2008, Georgian commercial banks faced certain difficulties. During that year, certain performance indicators of the commercial banks, such as net profit and return on assets and equity, were negatively affected. According to the IMF, the deterioration in banking sector conditions in 2008 was attributable to the rapid credit growth in the years immediately prior to 2008, the 2008 Conflict, the impact of the global financial crisis and the devaluation of the Lari in November 2008. The Georgian banking sector has stabilised over the course of 2009 and returned to growth from late 2009. This growth has continued throughout 2010.

According to the NBG, in the year ended 31 December 2010, the total assets of the Georgian banking sector grew by 27% and comprised GEL 10.6 billion (US$6.0 billion) as of 31 December 2010, as compared to GEL 8.3 billion as of 31 December 2009 and GEL 8.9 billion as of 31 December 2008. Aggregate loans granted by Georgian banks increased by 21% during the year ended 31 December 2010 and the ratio of loans to GDP as of 31 December 2010 was 30.2% as compared to 28.8% in 2009 and 31.4% in 2008. The aggregate statutory shareholders' equity of Georgian banks was approximately GEL 1.8 billion (US$1.0 billion) as of 31 December 2010, as compared to GEL 1.5 billion as of 31 December 2009, while the aggregate profit of Georgian banks was approximately GEL 156.3 million (US$88.1 million) for the year ended 31 December 2010 as compared to a loss amounting to GEL 65.3 million for 2009. The return on assets (**"ROA"**), (based on monthly average assets) of the banking sector for the year ended 31 December 2010 was 1.7%, as compared to negative 0.8% for 2009 and the return on equity (ROE) (based on monthly average equity) for the year ended 31 December 2010 was 9.6%, as compared to negative 4.3% for 2009. As of 30 June 2011, the Georgian banking sector's assets grew by 6.2% compared to assets as of 31 December 2010, while aggregate loans granted by Georgian banks increased by 10.2% during the same period. The aggregate statutory shareholders' equity of Georgian banks was GEL 1,835.1 million, (US$1.1 billion) and the aggregate net profit amounted to approximately GEL 119.1 million (US$71.5 million) as of 30 June 2011. For the six months ended 30 June 2011, the annualised ROA of the banking assets was 2.2% and annualised ROE was 13.4%.

The following table sets out certain information on the banking sector in Georgia, Russia, Kazakhstan and Ukraine as of December 2010.

Country	Loan penetration	Deposit penetration
	(%)	
Georgia	30.2%	28.1%
Russia	44.8%	41.4%
Kazakhstan	52.5%	36.5%
Ukraine	70.4%	40.3%

Source: Business Monitor International, the NBG and Geostat

The following table sets out information on the Georgian banking sector and the five largest banks in Georgia as a group as of the dates indicated. This information is derived from information published by the NBG (based on data provided to the NBG by Georgian banks), which was compiled from standalone financial information filed by Georgian banks.

	As of 30 June			As of 31 December								
	2011			2010			2009			2008		
	Five largest Georgian banks	Total Georgian banking sector	Five largest banks as a% of sector	Five largest Georgian banks	Total Georgian banking sector	Five largest banks as a% of sector	Five largest Georgian banks	Total Georgian banking sector	Five largest banks as a% of sector	Five largest Georgian banks	Total Georgian banking sector	Five largest banks as a% of sector
	(thousands of Lari, except percentages)											
Total assets	8,811,853	11,220,341	78.5%	8,249,700	10,564,217	78.1%	6,472,781	8,292,546	78.1%	7,027,231	8,865,631	79.3%
Gross loans	5,504,227	6,900,715	79.8%	4,943,616	6,260,705	79.0%	4,220,866	5,185,336	81.4%	4,900,769	5,992,880	81.8%
Total deposits	5,214,211	6,331,918	82.3%	4,658,493	5,817,653	80.1%	3,090,925	4,173,884	74.1%	2,883,770	3,844,909	75.0%
Shareholders' equity	1,313,056	1,835,114	71.6%	1,315,738	1,787,647	73.6%	1,207,277	1,516,988	79.6%	1,148,457	1,517,255	75.7%
Net income	82,526	119,140	69.3%	175,644	156,105	112.5%	226	(65,317)	(0.3)%	(94,173)	(215,739)	43.7%

Source: NBG

The largest Georgian banks all have their headquarters in Tbilisi, and the Georgian banking sector has been marked by increased foreign investment and consolidation over the past three years.

In recent years, the Georgian banking sector has become increasingly competitive. According to the NBG, as of 31 August 2011 there were 19 commercial banks and foreign bank branches operating in Georgia, of which 17 (including two branches of foreign banking institutions) had foreign capital participation. Bank of Georgia considers its principal competitors to be TBC Bank, Bank Republic, ProCredit Bank, VTB Georgia and Liberty Bank. In particular, as ProCredit Bank has a large market share in respect of SME and micro finance loans, the Bank faces competition from ProCredit Bank in relation to SME and micro financing in Georgia. TBC Bank and Bank Republic are the Bank's competitors in the corporate sector. In addition, both the mortgage market and the market for the provision of financial services to high net worth individuals are highly competitive in Georgia, with some competitors in the mortgage market implementing aggressive pricing policies in order to retain or build their market share. Additionally, in Belarus, the Group competes with a wide range of local (including state-owned) and international banks.

Despite significant competition, the BGH Directors believe that the Bank is well placed to retain its dominant market position among the top banks in Georgia that offer a wide range of retail and corporate products and services. See Part II "Risk Factors — Additional Risks Affecting the Group — The Group faces competition".

Assets and Liabilities, Credit Quality and Interest Rates

The majority of the assets of Georgian banks comprise loans to private sector borrowers (excluding inter-bank loans). According to information published by the NBG (based on data provided to the NBG by Georgian banks), in 2009 loans to private sector borrowers (excluding inter-bank loans) represented 62.5% of total assets of commercial banks in Georgia, while investment securities accounted for 6.1% According to the same source, in 2010 loans to private sector borrowers (excluding inter-bank loans) and investment securities represented 59.2% and 7.6% of total assets of Georgian banks, respectively. As of 30 June 2011, loans to private sector borrowers (excluding inter-bank loans) accounted for 61.3% of total assets, while investment securities represented 8.5%. Aggregate loans amounted to GEL 5.2 billion as of 31 December 2009, representing a decrease of 13.4% year-on-year. According to the NBG, due to the effects of the economic crisis in 2008 and 2009, the overall quality of loans granted by Georgian banks deteriorated as reflected in the increase of loan loss reserves/gross loans ratio, from 9.0% in 2008 to 12.7% in 2009. There has been an increase in long-term loans (with a maturity of more than one year), from 73.5% of total gross loan portfolio (including accrued interest) as of 1 January 2009 to 75.5% as of 1 January 2010. According to the NBG, the overall quality of loans granted by Georgian banks in the six months ended 30 June 2011 improved and there was a decrease in the loan loss reserves/gross loans ratio to 8.4% from a loan loss reserves/gross loan ratio of 9.4% as of 31 December 2010 and a loan loss reserves/gross loans ratio of 11.7% as of 30 June 2010. Loan loss reserves as of 30 June 2011 amounted to GEL 576.5 million, compared to GEL 587.5 as of 31 December 2010 and GEL 670.3 million as of 30 June 2010.

In 2010, the majority of gross liabilities in the banking sector were attributable to deposits and borrowings, of which non-bank and bank deposits accounted for 66.3% and borrowings for 29.9% of total liabilities, while as of 30 June 2011, non-bank and bank deposits accounted to 67.5% and 26.7% of total liabilities, respectively. In 2009, the majority of gross liabilities in the banking sector were attributable to deposits and borrowings, of which non-bank and bank deposits accounted for 61.6% and borrowings for 34.9% of total liabilities. During 2009, customers deposits in banks grew by 10.7%, GEL denominated customers deposits increased by 29.4% while foreign currency denominated customer deposits grew by 3.8%. In 2010, customer deposits in banks grew by 38.9%, while GEL denominated customer deposits increased by 41.5% and foreign currency denominated customer deposits grew by 37.8%. From 31 December 2010 to 30 June 2011, customer deposits grew by 5.3%, while GEL denominated customer deposits grew by 15.0% and foreign currency denominated customer deposits increased by 0.6% by 30 June 2011.

Interest rates on bank loans had historically been decreasing until 2006. Based on information published by the NBG (based on data provided to the NBG by Georgian banks), average interest rates on loans granted by commercial banks were 18.6% in 2008, 19.3% in 2009 and 18.6% in 2010. Average interest rates on loans denominated in GEL were 21.8% in 2008, 23.6% in 2009 and 22.6% in 2010 and the average interest rate on foreign currency loans was 17.1% in 2008, 18.1% in 2009 and 17.2% in 2010. Average interest rates on foreign currency bank deposits, also including current accounts, were 9.2% in 2008, 10.1% in 2009 and 8.9% in 2010, whereas average interest rates on Lari-denominated bank deposits, also including current accounts, were 9.4% in 2008, 9.2% in 2009 and 8.8% in 2010.

Based on information published by the NBG the NBG's gross international exchange reserves increased during 2009 and 2010 and comprised approximately US$2.3 billion as of the year end 2010. Gross international exchange reserves reached US$2.8 billion as of 30 June 2011, and US$2.9 billion as of 31 October 2011, according to the NBG. The official average monthly exchange rate of the Lari against the US Dollar depreciated by approximately 1.4% in December 2009, compared to December 2008, and depreciated by approximately 5.0% in December 2010, compared to December 2009. The official average monthly exchange rate of the Lari against US Dollar appreciated by approximately 6.1% in June 2011, compared to December 2010, and 10.9% compared to June 2010. Inflation as measured by period-end CPI decreased from 5.5% in 2008, to 3.0% in 2009 and to 11.2% in 2010. In October 2011, year-on-year inflation decreased to 2.3% (estimated).

Dollarisation of the Georgian Economy

Following the economic and political uncertainties of the early 1990s and subsequent hyper-inflation, the Georgian economy underwent a process of dollarisation, whereby the US Dollar and other freely convertible currencies became the major means of payment and wealth accumulation in Georgia. This process was encouraged by the financial liberalisation of the mid-1990s, which allowed domestic financial intermediation to be conducted in both national and foreign currencies.

Dollarisation (foreign currency deposits as a percentage of total deposits) subsided with the stabilisation of the economy in 1995, only to increase again after the Russian financial crisis of 1998. The majority of deposits in the Georgian banking sector are still held in foreign currencies. The dollarisation rate declined between 1 January 2004 and 1 January 2008, with foreign currency deposits declining from approximately 86.1% of all amounts due to customers as of 1 January 2004 to approximately 64.4% as of 1 January 2008. However, the dollarisation rate then increased as a result of the combined effects of the 2008 Conflict and the global financial crisis on Georgia. The dollarisation rate increased to approximately 73.6% as of 1 January 2009, primarily as a result of the devaluation of the Lari by 16.1% in November 2008, a measure aimed at alleviating the negative impact of the global financial crisis on the Georgian economy. The dollarisation rate has since decreased to approximately 68.8% as of 1 January 2010 and further to 67.0% as of 1 January 2011 and 64.3% as of 1 July 2011.

Based on information published by the NBG, the portion of loans denominated in foreign currency increased from 72.7% to 76.8% between 2008 and 2009 and then decreased to 74.0% as of 1 January 2011. The portion of short-term loans denominated in foreign currency remained flat at 59.3% to 59.3% in 2008 and in 2009 and increased to 54.7% as of 1 January 2011 while the portion of long-term foreign currency-denominated loans (with a maturity of one year or more) increased from 77.4% to 82.5% from 2008 to 2009 and became 80.8% as of 1 January 2011. As of 1 July 2011, the portion of short-term loans denominated in foreign currency amounted to 50.3%, while the portion of long-term foreign currency denominated loans (with the maturity of one year or more) was 79.5%. The NBG has taken steps to stimulate demand for the Lari, including the introduction of differentiated reserve requirements for domestic and foreign currencies**.** Various policies of the government of Georgia have also led to increased demand for the Lari, for example, contraction of the shadow economy traditionally served by the US Dollar naturally led to its replacement by the national currency.

Foreign investment

There are currently no legal or regulatory barriers impeding foreign investment in the Georgian banking sector, but direct competition from foreign banks is not significant at present. Previously, no Georgian or foreign legal or natural person (other than a bank) could own more than 25.0% of a Georgian bank; however, this limit was abolished in March 2006.

Based on the NBG Annual Report 2010, as of 31 December 2010 the share of the non-residents in the banks' paid-in capital amounted to 84.4%. According to the NBG as of 31 August 2011, there were 19 commercial banks and foreign bank branches operating in Georgia, of which 17 (including two branches of foreign banking institutions) had foreign capital participation.

Major foreign investors in the Georgian banking sector include the EBRD, IFC, OPIC, DEG, Société Générale (France), Kreditanstalt fur Wiederaufbau (the German Reconstruction Credit Institution or KfW), Joint Stock Company Procredit Holding, VTB Bank (Russian Federation), BTA (Kazakhstan), Halyk Bank (Kazakhstan), International Bank of Azerbaijan, Development Bank of the Caucasus (Azerbaijan), HSBC Europe (the Netherlands), Ziraat Bank (Turkey) and Privatbank (Ukraine).

Concentration within the banking sector

Recent years have been marked by increasing consolidation and concentration within the Georgian banking sector. According to information published by the NBG, as of 30 June 2011, the aggregate assets of all banks in Georgia were approximately GEL 11.2 billion (US$6.7 billion), with the five largest banks accounting for approximately 78.5% of such assets.

Payment systems

At the end of the 1990s, the Georgian banking sector began to develop real-time settlement systems and to implement the centralised system of Society for Worldwide Inter-bank Financial Transactions, "SWIFT". Banking card processing companies were established and Georgian banks started to issue international bank cards. The number of ATMs and POS terminals throughout Georgia has significantly expanded over the last few years and a number of initiatives to pay salaries to employees via banking cards (rather than in cash) have been implemented. All major card systems are accepted in Georgia, including VISA, MasterCard, American Express and Diners Club. All bank transfers are now done electronically and a clearing system for VISA card transactions in Lari (known as GNNSS) has been introduced. International and domestic money-transfer systems are widely used in commercial banks. In May 2010, a new settlement system was introduced in IBAN format, which will become mandatory for payments starting 1 January 2013. In addition, in December 2010 a new payment and securities system (GPSS) was introduced, which comprises a real time settlement (RTGS) and securities settlement (CSD) modules. According to the NBG, the total value of bank card transactions carried out using cards issued by resident issuers amounted to GEL 4.1 billion in 2008, GEL 4.7 billion in 2009, GEL 5.4 billion in 2010 and GEL 3.2 billion in the six months ended 30 June 2011.

Credit ratings

On 8 August 2008, Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (**"Standard & Poor's"**) lowered Georgia's long-term credit rating to "B" from "B+", in response to the 2008 Conflict. Georgia's short-term credit rating was maintained at "B". After being placed on CreditWatch negative in August 2008, Georgia's outlook was revised to "stable" on 26 September 2008. On 29 March 2011, Standard & Poor's revised its outlook on Georgia to "positive". On 12 April 2011, Georgia issued new US$500 million ten-year sovereign bonds and redeemed previous five-year sovereign bonds due in 2013. Standard & Poor's rating of the 2021 sovereign bonds on their issue date was "B+". Fitch Ratings, Ltd (**"Fitch"**) also upgraded Georgia on 26 August 2009, to a "B+" long-term credit rating for both local and foreign currency and a "B" credit rating for short-term foreign currency, with a stable outlook. On 3 March 2011, Fitch revised its outlook from "stable" to "positive". Fitch rated the sovereign bonds due 2021 on their issue date as ''B+". Moody's Investors Service, Inc. (**"Moody's"**) rated the 2021 Sovereign Bonds at Ba3 on their date of issue. On 7 October 2010, Moody's assigned first time Ba3/Not-Prime foreign and local currency issuer ratings to Georgia with a stable outlook. On 22 November 2011, Standard & Poor's raised Georgia's long-term foreign and local currency ratings from "B+" to "BB-". On 15 December 2011, Fitch upgraded Georgia's sovereign long-term issuer default ratings to "BB-" from "B+".

Each of Standard & Poor's, Fitch and Moody's is established in the European Union and has applied for registration under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the **"CRA Regulation"**), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.

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

The Bank has ratings of "BB−" long-term and "B" short-term for counterparty credit from Standard & Poor's. Standard & Poor's rating outlook for the Bank is stable.

Role of the National Bank of Georgia

The NBG is the central bank of Georgia, banking institution and fiscal agent of the government of Georgia. The main objective of the NBG is to maintain the stability of prices, which implies the existence of a moderate and predictable rate of inflation. The NBG is responsible for ensuring the stability and transparency of the financial system and promoting sustainable economic growth in Georgia. The role and responsibilities of the NBG are set out in the Constitution of Georgia, the NBG Law and other Georgian legislation. In addition, the NBG is expected to be guided by the rules and customs of international banking practice. The NBG is entitled to enter into agreements, acquire, hold and manage property, act as a claimant or defendant in legal proceedings and to independently perform its functions.

The NBG is made up of the NBG itself and the Financial Monitoring Service (the **"FMS"**). The FMS is an independent public law entity, which operates as an independent body under the auspices of the NBG. It was created to monitor and supervise anti-money laundering measures and to issue orders setting out further preventative measures and reporting requirements that should be complied with. For further information, see Part XXIII "Regulation of the Georgian Banking Sector".

The supreme body of the NBG is its Council, which has seven members. The Council is the supreme authority for the management and supervision of the NBG's activities. Among other things, the Council is responsible for the approval of the main principles of management of the international reserves of Georgia and of the rules of establishing foreign currency exchange rates. The President of the NBG is also Chairman of the Council. In addition to the Chairman, the Council consists of two Vice-Presidents and other members. Members of the Council are elected for a seven-year term by Parliament based on the nomination of the President of Georgia and are eligible for re-election. A member of the Council may be removed only by a decision of Parliament by way of impeachment in case he or she breaches the Constitution or commits a crime. A new member must be elected to replace him or her. The President and Vice-Presidents of the NBG are appointed and dismissed by the President of Georgia.

Under the NBG Law, the NBG has the following major functions:

Issuing Money and Regulating its Circulation

The NBG has the exclusive right to issue bank notes and coins in Georgia. The NBG is responsible for the printing of bank notes and the minting of coins, the security and safekeeping of bank notes and coins intended for circulation and the custody and destruction of bank notes and coins withdrawn from circulation.

Monetary Policy

The main direction of the NBG's monetary policy is to attain and maintain the targeted rate of average annual increase of consumer price levels. The NBG implements monetary policy according to the main directions of monetary and foreign exchange policy defined annually by Parliament.

The NBG is responsible for setting minimum reserve requirements for banks and non-bank depositary institutions and may increase the minimum required amount of reserves as it deems appropriate. The NBG has the power to impose fines on banks and non-bank depositary institutions which fail to maintain the minimum reserves.

In the conduct of its monetary policy, the NBG is permitted to issue debt securities and to purchase and sell such debt securities, as well as those issued by the Georgian government, directly or under repurchase agreements in the open market. It is also authorised to issue loans to commercial banks and non-bank depositary institutions with appropriate security, accept deposits and be a lender of last resort to commercial banks for a period not exceeding three months.

Foreign Exchange and International Reserves

The NBG determines the exchange rate for the Lari against the US Dollar according to the average weighted exchange rate calculated on the basis of the inter-bank Spot transactions (including those in which the NBG is involved) registered in the Bloomberg Electronic Trading System within a specified period of time. As to the official exchange rate of the Lari against other foreign currencies, it is determined on the basis of cross-currency calculation of the exchange rates existing in international markets or internal currency markets of the issuer states. The NBG holds and manages official international reserves.

Acting as Banker, Adviser and Fiscal Agent of the Government of Georgia

The NBG advises the President and the government of Georgia, including the Minister of Finance, on all matters that relate to the activities of the NBG, the main parameters of the annual state budget and amendments to it, including the planning of domestic and external public sector borrowings. It is authorised to act as depository for deposits from the Treasury Service of Georgia and, in such capacity, to receive and disburse monies, maintain accounts and provide related services. The NBG is authorised to act as the fiscal agent of the state agencies in the marketing and administration of debt securities issued by such agencies.

Operation of Clearing and Settlement Facility

The NBG is entitled to establish procedures and issue regulations relating to clearing and non-cash settlement, organise implementation of the payment systems and provide service and administration of such systems to ensure their efficient operation. The NBG has the power to assist banks to organise payment systems and supervise them.

Reporting

Not later than 1 October each year, the NBG submits a draft document on the main directions of the monetary and foreign exchange policy for the following three years to Parliament for approval by the end of that year. If Parliament fails to approve the draft document on the main directions of the monetary and foreign exchange policy by the end of the respective year, the NBG operates in accordance with its draft proposals. The draft document on the main directions of monetary and foreign exchange policy shall include the targeted level of inflation, the main instruments of monetary policy used to attain the targeted inflation rate and discussion of potential risks.

Within four months following the end of each fiscal year, the NBG submits a report on the implementation of the monetary and foreign exchange policies to Parliament for its approval.

Supervision of the Financial Sector and AML Measures

The NBG supervises the financial sector, including commercial banks, insurance companies and the securities market and monitors (through the FMS) the measures aimed at preventing the legalisation of illicit income and terrorist financing.

Role of the NBG as the Supervisor of Georgia's Financial Sector

Under the NBG Law, the NBG has the following major supervisory functions:

Supervision and Licensing

The NBG is responsible for the supervision of the financial sector of Georgia, which along with the commercial banks includes: non-bank depositary institutions, insurance organisations, reinsurance companies, brokers, securities' registrars, asset management companies, central depository, specialised depository, stock exchange, microfinance organisations, non-state pension scheme founders, reporting companies, currency exchange and money transfer offices. The NBG has the power to issue and revoke licences (if applicable), carry out inspections, impose restrictions and sanctions and place banks and non-bank depository institutions (as well as certain other financial institutions) into temporary administration and/or liquidation.

Regulation of Reporting Rules and Capital Requirements

The NBG sets accounting and reporting rules and procedures for commercial banks and non-bank depositary institutions and is entitled to carry out an audit of all of the relevant documents of such institutions as well as of their subsidiaries. The NBG has the power to determine the minimum capital requirements for banks and non-bank depositary institutions and to obtain information about sources of capital, as well as owners and beneficial owners of significant interests in commercial banks. The NBG issues various regulations related to its supervisory functions.

Reporting

The NBG Council reviews, approves and submits the annual activities report and financial report of the NBG to Parliament.

PART XV

LENDING POLICIES AND PROCEDURES

The Bank lends to corporate, retail and wealth management clients. Loans advanced are typically short, medium and long-term and secured by collateral. The Bank has established procedures for approving loans, monitoring loan quality and for extending, refinancing and/or restructuring existing loans. These procedures are set out in the Bank's credit policies and procedures and other internal documents (the **"Credit Policies"**), which have been approved by the Bank Supervisory Board and/or Bank Management Board, and applies to all loans, including those to related parties. The performance of outstanding loans is subject to monitoring by the Bank's Corporate and Retail Banking front offices, Credit Risk Management and Retail Credit Risk Management departments. At the centre of the Bank's lending and approval process are its Credit Committees. The Credit Committees supervise and manage the Bank's credit risks. In particular, the Credit Committees approve individual transactions and establish credit risk categories and provisioning rates. See Part XVI "Risk Management — Risk Management Structure — Risk Management Bodies — Credit Committees".

Loan Approval Procedures

Corporate Loans

The Bank evaluates corporate banking clients on the basis of their credit history, business operations, market position, management, level of shareholder support, financial condition, proposed business and financing plan and on the quality of the collateral offered.

Applications for loans by corporate banking clients are initially submitted to the corporate bankers responsible for the particular customer. The corporate bankers obtain from the applicant the documents necessary to review the loan application, including confirmation of the applicant's legal status, its financial reports, evidence of its management's authority, a description of the proposed collateral (if any), which is valued by the Bank's valuator, and supporting documents, a description of its business plan data or of the project to be funded and evidence of its credit history. A corporate banker then performs an on-site assessment of the customer's business operations and prepares a credit memorandum.

The loan application and/or credit memorandum, together with the supporting documentation and collateral evaluation report (if any), are then submitted by the corporate banker to the Credit Risk Management department for independent appraisal. The Credit Risk Manager carries out an overall appraisal of the applicant's business, assesses its suitability as a customer of the Bank and appraises its business operations or the project to be funded as well as the applicant's creditworthiness. The credit risk manager independently carries out a detailed analysis of the credit memorandum, including, in particular, an evaluation of the applicant's financial condition, its business operations or the project to be funded, the sufficiency of the proposed collateral, the applicant's sources of repaying or refinancing the loan and the risk of default. The credit risk manager conducts a detailed review focussing in particular on the possible non-legal risks. Once the credit risk manager's review is complete, the credit risk manager produces a report which is required for the third tier sub-committee and which may be requested by either first or second tier sub-committees. The credit memorandum and, where appropriate, the credit risk manager's report are submitted to the appropriate level of the relevant Credit Committee, depending on the overall exposure. The relevant Credit Committee then makes the final decision, which is signed by all members of that Credit Committee in attendance at the relevant meeting. For further see, Part XVI "Risk Management — Risk Management Structure — Risk management bodies — Credit Committees".

Retail Loans

The loan approval procedures for retail banking loans depend on the type of retail lending product. Applications for consumer, including credit cards, and auto loans are treated under the "scoring" approval procedure. A loan officer conducts an interview with the applicant, completes an application, collects all relevant documentation and submits it to the Retail Credit Risk Management department, where the application is subject to a scoring system (which includes an assessment of the applicant's credit history, financial position and ability to service the loan). While certain loans of up to GEL 6,000 are approved by the scoring system, the appropriate Credit Committee will determine the amount, terms and conditions of other loans. Applications for mortgage loans by retail banking clients are completed by the mortgage loan officer and submitted to the Credit Risk Manager, who evaluates the credit risks and determines the amount, terms and conditions of the loan, which must be approved at the appropriate Credit Committee level. In the case of micro-financing loans, officers evaluate loan applications, prepare a project analysis and submit proposals to the appropriate Credit Committee which makes the final decision. Credit Committee members have equal voting authority and decisions are approved by a simple majority of votes.

In 2004, the Bank, jointly with certain other Georgian banks and with Creditinfo Group, a provider of credit information solutions, established Joint Stock Company Credit Information Georgia (**"CIG"**) to serve as a centralised credit bureau in Georgia. Most Georgian banks have shared negative customer credit information since July 2006. Since 2009, they also share and contribute positive customer credit information with CIG. There is currently no law on credit reporting in Georgia.

Monitoring

The Bank has procedures requiring regular monitoring of its loans and its loan portfolio pursuant to defined procedures. As well as monitoring the borrower's compliance with its obligations under the relevant loan, the Bank reviews all available information on the borrower's activities, including financial reports. In relation to its loan portfolio, the Bank also monitors the level of past due loans and the concentration and volume of loans to any particular borrower, group of borrowers or industry sector.

In the event that a payment is not made when due, the borrower is contacted by one of the Bank's officers and employees to ascertain the reason for non-payment. The Bank revises the risk associated with the borrower and adjusts its provisioning accordingly. Default interest accrues until payment is made. If payment is not made within a prescribed period, the loan is assigned to the Asset Recovery department and/or the Legal Department for legal proceedings. Certain unsecured consumer loans are outsourced to third party collection companies.

Collateral

The Bank typically requires credit support or collateral as security for the loans and credit facilities that it grants. The main forms of credit support are guarantees and rights to claim amounts on the borrower's current account with the Bank or other assets. The main forms of collateral for corporate lending are charges over real estate properties, equipment, inventory and trade receivables and the main form of collateral for retail lending is a mortgage over residential property. In the case of corporate loans, the Bank usually requires a personal guarantee (surety) from the borrower's shareholders. Under the Bank's internal guidelines, collateral should be provided (where it is required) to cover outstanding liabilities during the entire duration of a transaction. As of 30 June 2011, 90.6% of the Group's loans to clients were collateralised (including guarantees). An evaluation report of the proposed collateral is prepared by the Asset Appraisal and Disposal department and submitted to the appropriate Credit Committee, together with the loan application and credit risk manager's report. When evaluating collateral, the Bank discounts the market value of the assets to reflect the liquidation value of the collateral.

Under Georgian law, enforcement of security requires state registration or perfection through registration or through possession. The Legal department is responsible for registering the collateral taken by the Bank, monitored by the credit administration and documentation unit. Although, to the extent practical, the Group seeks to register all of its security interests in loan collateral as a matter of policy, if the Group fails to register any of its security interests in loan collateral, or fails to do so properly, this may result in its security being invalid or it facing unexpected or conflicting claims of other secured creditors. However, charges over moveable property may be impracticable to register due to the incapability of the chargee to restrict the subsequent sale of such moveable property. In addition, the statutory priority of claims against an obligor in Georgia will affect the amount the Bank will be able to realise pursuant to any claim it makes as a secured creditor. Under recently amended Georgian provisions dealing with the statutory priority of claims against an obligor, a tax claim against an obligor that originates before a financial institution has registered a security interest over an obligor's assets takes priority over a claim made in respect of those assets by the relevant financial institution, even where such tax claim has not been registered as a lien against those assets on or prior to the date of registration of the financial institution's security interest.

The Bank's requirements with regard to liquidity and price volatility of collateral depend on its evaluation of the borrower and the loan transaction. The frequency of a collateral review depends on the type of collateral taken. In normal circumstances, collateral is generally expected to be realised within a maximum period of six months after the repossession of the collateral. Due to recent amendments to legislation regarding the enforcement of collateral, in practice, the period for the enforcement of collateral has been substantially shortened (to up to four months), especially on auto and mortgage loans. However in certain cases court decisions may take longer. See Part II "Risk Factors — Risks relating to the Group's Lending Activities — Collateral values may decline".

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

	As of 30 June		As of 31 December		
	2011		2010	2009	2008
	(thousands of Lari)	*(thousands of US Dollars)*[1]	*(unaudited) (thousands of Lari)*	*(thousands of Lari)*	*(thousands of US Dollars)*[1]
Loans secured by corporate guarantees	14,520	8,710	21,315	10,663	6,532
Loans collateralised by pledge of equipment	13,262	7,956	41,349	19,538	50,495
Loans collateralised by pledge of inventory	7,799	4,678	41,740	21,928	13,786
Other collateralised loans[2]	2,226,693	1,335,749	2,215,013	1,641,129	1,832,065
Unsecured loans	234,534	140,692	207,816	134,559	242,745
Total loans to customers, gross	**2,496,808**	**1,497,785**	**2,527,233**	**1,827,817**	**2,145,623**

Notes:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

(2) Other collateralised loans comprise loans to customers collateralised by real estate and loans to customers collateralised by multiple types of (mixed) collateral.

Assessments of Provisions for Loan Impairment

The Bank establishes provisions for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The Bank creates provisions by reference to the particular borrower's financial 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 an analysis of the assets at risk and reflects the amount which, in the judgment of the Bank's management, is adequate to provide for losses incurred. Provisions are made as a result of individual or collective appraisal(s) of the financial assets. Provisions are made against gross loan amounts.

The change in impairment of interest earning assets is reflected in the profit and loss account and the total impairment of interest earning assets is recognised through the use of an allowance account which is deducted in arriving at net balances as shown in the balance sheet. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in impairment for similar financial assets, national economic trends and conditions and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

Estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain impairment losses that are substantial relative to the allowances, it is the judgment of the Bank's management that the allowance account for interest earning assets is adequate to absorb losses incurred on the assets at risk. The Bank monitors its loan portfolio on a monthly basis to determine whether estimates of losses should be increased or decreased.

Under the Bank's internal loan loss allowance methodology, which is based upon IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. Significant loans are defined as loans of GEL 600,000 or more and non-significant loans are defined as loans of less than GEL 600,000. All significant loans are classified according to individual credit and provisioning ratings. Non-significant loans that are overdue by more than 30 days are provisioned individually according to the overdue days. All non-impaired, non-significant loans as well as non-impaired significant loans, are assessed collectively within the sub-loan portfolio categories based upon historical loss rates.

In 2008, the Bank made changes to the internal loan loss allowance methodology in order to comply with new IFRS requirements. The Bank started to use a new factor calculation for loss-possible reserves, utilising the discounted value of collateral. Since December 2008, this factor applies only to the significant corporate and SME loans with provision rates of 30% and more and since June 2009, it also applies to mortgage loans with provision rates of 30% or more where such loans are in an amount of GEL 50,000 or more and corporate and SME loans with provision rates of 30% or more where such loans are in an amount of GEL 500,000 or more. The Bank calculates the discounted value of particular collateral and subtracts it from the provision amount of the loan.

As of 30 June 2011, the Group's allowance for loan impairment under IFRS was 4.9% of its loan portfolio (compared to 6.9%, 9.1% and 5.0% as of 31 December 2010, 2009 and 2008, respectively). As of the same date, BNB's allowance for loan impairment under IFRS was 4.1% of its loan portfolio (compared to 0.9%, 1.7% and 0.2% as of 31 December 2010, 2009 and 2008, respectively) and BG Bank's allowance for loan impairment under IFRS was 27.7%, 27.5% and 7.5% as of 31 December 2010, 2009 and 2008, respectively.

Loan Restructuring Policy

In response to the changed credit risk environment following the 2008 Conflict and the onset of the global financial crisis in 2008, the Bank established a Corporate Recovery Department, Micro & SME Loan Recovery Unit and retail loan restructuring group in respect of the Bank's operations in Georgia. In addition, the Bank developed and implemented a loan restructuring policy for retail banking, an important tool for enhanced credit portfolio management. The Bank makes an assessment as to whether overdue corporate loans should be restructured or court proceedings instigated on a case-by-case basis.

According to the Bank's loan restructuring policy, Restructured Loans are loans that would otherwise be overdue or impaired whose terms (including as to principal and interest payment) have been renegotiated due to the borrower's existing or possible inability to pay. The ratio of Restructured Loans to total gross loans was 6.7% as of 30 June 2011, compared to 10.9%, 29.9% and 19.8% as of 31 December 2010, 2009 and 2008, respectively.

The Bank considers a loan to be "at risk" when payment is overdue for 30 days or following a critical event, such as the declaration of bankruptcy. The Bank also evaluates the underlying reasons for default in order to mitigate the risk of future loans from becoming at risk loans. In certain circumstances, the Bank then contacts the borrower to discuss the options for restructuring the loan, by rescheduling interest payments and extending the term of the loan in order to restore the borrower's ability to service the loan, or repay the loan, or by trying to obtain additional collateral. The borrower will be liable to pay a penalty at a daily rate of 0.5% for retail and wealth management loans and double the annual interest rate for corporate loans on the total overdue amount, which includes the principal and interest accrued in respect of each day the relevant loan payment is overdue. According to the Bank's policy, if the loan is restructured, 50% (applicable in all cases), 70% (in cases where the loan is secured by real estate) or 90% (in cases where the borrower is willing to pay the total outstanding amount of principal and interest due in respect of the loan) of the penalties that the borrower has accrued for late payment may be waived by the Bank. According to the Bank's policy, typically, if a residential mortgage is restructured, the existing rate of interest will be increased by 2 percentage points (if the principal amount outstanding is below US$10,000), 1 percentage point (if the principal amount outstanding is between US$10,000 and US$100,000) or 0.5 percentage points (if the principal amount outstanding is above US$100,000). The term of a restructured residential mortgage can be increased to a maximum of 120 months and, depending on the borrower's circumstances, a borrower may be granted a maximum grace period of between three and nine months. Once a loan has been restructured, the Bank closely monitors the borrower's compliance with the terms of Restructured Loan.

Loans Past Due More Than 90 days and Write-offs

The Group's total loans past due more than 90 days to total gross loans ratio decreased from 4.7% as of 31 December 2010 to 3.1% as of 30 June 2011, having increased from 2.9% as of 31 December 2008 to 7.7% as of 31 December 2009.

Under the Bank's internal loan loss allowance methodology, which is based upon IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. See "— Assessments of Provisions for Loan Impairment" above. Non-significant loans which are overdue for more then 150 days are written off automatically, except for mortgage loans which, since June 2009, are written off once overdue for more than 360 days. Significant loans may be written-off following an assessment by the Deputy CEO, Chief Risk Officer and the Credit Risk Management department, in consultation with the Bank's CEO and Deputy CEO, Finance.

PART XVI

RISK MANAGEMENT

Overview

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent in the Bank's operations are liquidity risk, market risk (including currency exchange rate risk and interest rate risk), credit risk, operational risk and legal risk. The following is a description of the Bank's risk management policies and procedures in respect of those risks.

The main tools of risk management of the Bank are the establishment of specific procedures with respect to operations involving certain types of risks as well as the placement of various authority limits on certain operations. The Bank seeks to manage its overall risk exposure by continuously improving its risk management policies and systems. The Bank's risk management procedures are designed to identify and analyse relevant risks to its business, prescribe appropriate limits to various risk areas and to monitor the level and incidence of such risks on an on-going basis. The Bank regularly reviews its risk analysis processes in order to institute improvements which are required in light of the development and growth of its business and the varying nature of the risks which the Bank faces in its day-to-day business.

The Bank's risk management system is based on the principle of continually assessing risk throughout the life of any operation and includes such stages as:

- risk identification;
- quality and quantity assessment of a particular risk;
- determination of an acceptable risk level;
- placement of limits and creation of reserves;
- use of collateral;
- ongoing monitoring and control allowing efficient adjustments in case of any negative changes in the conditions on which the preliminary risk assessment was made; and
- analysis of efficiency of the risk management system.

Risk Management Structure

The Bank conducts its risk management activities within the framework of its unified risk management system.

Risk Management Bodies

Responsibility for the conduct of the Bank's risk management activities is divided among the Bank's principal risk management bodies, which are the Bank Supervisory Board, the Bank's Audit Committee (the **"Bank Audit Committee"**), Bank Management Board, Internal Audit Department, Treasury, Credit Committees, Asset and Liability Management Committee (**"ALCO"**) and the Bank's Legal Department.

Bank Supervisory Board. The Bank Supervisory Board is responsible for the Bank's overall risk management approach and for approving risk strategies and principals and is ultimately responsible for identifying and controlling risks. It approves the Bank's Credit Policies, which outline credit risk control and monitoring procedures and the Bank's credit risk management systems and approves certain decisions which fall outside the scope of the Credit Committees' authority (including approvals of single borrower lending exposure exceeding US$25.0 million). The Bank Management Board presents a comprehensive credit risk report and market risk report to the Bank Supervisory Board for their review on a quarterly basis.

Bank Audit Committee. The Audit Committee has overall responsibility for implementing principles, frameworks, policies and limits in accordance with the Bank's risk management strategy. It is responsible for fundamental risk issues and manages and monitors compliance of relevant risk management decisions with the Bank's risk management policy. The Bank Audit Committee facilitates the activities of the internal audit and external auditors of the Bank. The Bank Internal Audit also reviews AML policies and procedures and presents audit reports on AML to the Audit Committee on a quarterly basis. The Bank Audit Committee is elected by the Bank Supervisory Board.

Bank Management Board. The Bank Management Board has overall responsibility for the Bank's asset, liability and risk management activities, policies and procedures. In order to effectively implement the risk management system, the Bank Management Board delegates individual risk management functions to each of the various decision-making and execution bodies within the Bank.

Internal Audit Department. The Internal Audit department is responsible for the annual audit of the Bank's risk management processes. It examines both the adequacy of and the Bank's compliance with those procedures. The Internal Audit Department discusses the results of all assessments with management, and reports its findings and recommendations to the Bank Audit Committee.

Treasury. Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure and is also primarily responsible for managing funding and liquidity risks of the Bank.

Credit Committees. The Bank has two credit committees (together, the **"Credit Committees"**), one which supervises and manages the Bank's credit risks in respect of retail and wealth management loans and one which supervises and manages the Bank's credit risks in respect of corporate loans. Each Credit Committee approves individual loan transactions and establishes credit risk categories and provisioning rates on such transactions. The Deputy Chief Executive Officer (Chief Risk Officer) and the Credit Risk Management department review the credit quality of the loan portfolio, set provisioning rates and, in consultation with the Bank's CEO and Deputy CEO (Finance), adopt decisions on the acceleration and write-off, on a monthly basis, of loans past due for more than 90 days.

Each Credit Committee is comprised of tiers of subcommittees. The Credit Committee for retail loans comprises four tiers of subcommittee. (For risk management purposes, wealth management loans are classed as retail loans.) The Credit Committee for corporate loans comprises three tiers of subcommittee. Each first tier subcommittee is chaired by the Risk Manager of the relevant Credit Risk Management department and approves loans resulting in Bank's overall exposure to an existing borrower of up to US$500,000 (or US$200,000 for a new borrower) for corporate loans and up to US$150,000 for retail loans. Second tier subcommittee is chaired by the Head of the Credit Risk Analysis unit for corporate and by Deputy Head of Credit Risk Management department for retail loans and approves loans resulting in the Bank's overall exposure to an existing borrower in the range of US$500,000 to US$1.5 million (or US$200,000 to US$750,000 for a new borrower) for corporate loans and US$150,000 to US$300,000 for retail loans. The third tier subcommittee for corporate loans is chaired by the CEO (and, in his absence, the Deputy CEO (Chief Risk Officer)) and approves loans resulting in the Bank's overall exposure to an existing borrower exceeding US$1.5 million (or US$750,000 for a new borrower). The third tier subcommittee for retail loans is chaired by the Director of the Credit Risk Management department, and approves loans of up to US$2.0 million. The fourth tier subcommittee for retail loans is chaired by the CEO (and, in his absence, the Deputy CEO (Chief Risk Officer)) and approves loans resulting in the Bank's single borrower lending exposure exceeding US$2.0 million. All exposures to single group borrowers over US$25.0 million require approval by the Bank Supervisory Board. The third and fourth tier subcommittees of the Credit Committee for retail loans meet three times per week and the first and second tier subcommittees of each of the Credit Committees meet on an as-needed basis, typically two to three times per week. Each of the subcommittees of the Credit Committees make their decisions by a majority vote of their respective members.

Decisions on micro loans under US$100,000 are made at the branch level pursuant to joint approval by the Director of the Micro and SME Lending department or group leader. The originator of the loan does not participate in the approval of the loan.

The Credit Committee for Micro and SME loans comprises three tiers of subcommittees. The first tier Micro and SME Credit Committee is chaired by the head of group of the Micro and SME Lending department and approves loans resulting in the Bank's overall exposure to a borrower of up to US$15,000. The second tier Micro and SME Credit Committee is chaired by the head of the Micro and SME department and approves loans resulting in the Bank's overall exposure to a borrower in the range of US$15,000 to US$100,000. The third tier Micro and SME Credit Committee is chaired by the Risk Manager and approves loans resulting in the Bank's overall exposure to a borrower in the range of US$100,000 to US$500,000.

The Problem Loan Recovery Committee is chaired by one of the following: (1) the heads of the Problem Loan Management department; (2) the heads of the Risk departments; or (3) the Deputy CEO (Chief Risk Officer), depending on the level of exposure. The Problem Loan Recovery department manages the Bank's exposures to problem loans and reports to the Deputy CEO (Chief Risk Officer). The Deputy CEO (Chief Risk Officer) also chairs the committee which oversees loans which are the subject of litigation.

The Corporate Recovery Committee is chaired by the Deputy CEO (Chief Risk Officer) and is responsible for monitoring all of the Bank's exposures to loans that are being managed by the Corporate Recovery Department. The Corporate Recovery Department reports to the Deputy CEO (Corporate Banking).

Asset and Liability Management Committee (ALCO). The ALCO establishes the Bank's policy with respect to capital adequacy, market limits, medium and long-term liquidity risk and interest rates. Specifically, the ALCO (i) sets interbank lending limits as well as open currency position limits with respect to both overnight and intra-day positions and stop loss limits; monitors compliance with established value at risk (**"VAR"**) limits on possible losses as a secondary measure; and sets ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities. Compliance with the Bank's interest rate policy is monitored by the head of the Financial Risk Management unit of the Finance department and the Treasury.

The ALCO is chaired by the CEO and meets at any time deemed necessary, with decisions made by a majority vote of its members. ALCO members include the CEO, Deputy CEO (Finance), Deputy CEO (Chief Risk Officer), Deputy CEO (Retail Banking), Deputy CEO (Wealth Management), Head of Finance department, Head of Financial Risk Management unit of Finance department, Head of the Treasury, Head of Trade Finance and Head of Funding. The ALCO reviews financial reports and indices including the Bank's ALM limits/ratios, balance sheet, statement of operations, liquidity gap, interest rate gap, cash flow analyses for the past three months and future projections, deposit concentration and other financial and growth projections on a monthly basis.

Legal Department. The Legal Department's principal purposes are to ensure that the Bank's activities conform to applicable legislation and to minimise losses from the materialisation of legal risks. The Legal Department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner, the investigation of the Bank's activities in order to identify any legal risks, the planning and implementation of all necessary actions for the elimination of identified legal risks, participation in legal proceedings on behalf of the Bank where necessary and investigating possibilities for increasing the effectiveness of the Bank's legal documentation and its implementation in the Bank's daily activities. The Legal Department is also responsible for providing legal support to structural units of the Bank.

Implementation

The Bank's risk management system is implemented by the Finance department and the Treasury, Credit Risk Management, Operational Risk Management and Control, Legal, AML Compliance and Security departments and other departments. The Reporting and Analysis unit and the Financial Risk Management unit of the Finance department report to the Head of the Finance department. The Finance department and the Treasury department report to the Deputy CEO (Finance). The Credit Risk Management (CB Portfolio Analysis) and Operational Risk Management and Control departments report to the Deputy CEO (Chief Risk Officer) and the Credit Risk Management (Retail Banking Portfolio Analysis) department reports to the Deputy CEO (Retail Banking). The Legal and AML Compliance departments report to the Deputy CEO (Legal).

The Financial Risk Management unit of the Finance department, in coordination with the Treasury, implements the Bank's market risk policies by ensuring compliance with established open currency position limits, counterparty limits, VAR limits on possible losses and the interest rate policy set by the ALCO.

The Treasury department manages foreign currency exchange, money market, securities portfolio and derivatives operations and monitors compliance with the limits set by the ALCO for these operations. The Treasury department is also responsible for management of short-term liquidity and treasury cash flow and monitors the volumes of cash in the Bank's ATMs and at its service centres.

The Credit Risk Management department manages credit risks with respect to particular borrowers and assesses overall loan portfolio risks. It is responsible for ensuring compliance with the Bank's Credit Policies, management of the quality of the Bank's loan portfolio and filing and loan administration.

The Operational Risk Management and Control department is responsible for identification and assessment of operational risk categories within the Bank's processes and operations. It is also responsible for detecting critical risk areas or groups of operations with an increased risk level and developing internal control procedures to address these risks, including (among others) business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibility.

The Legal department monitors all changes in relevant laws and regulations, and ensures that those changes are properly reflected in the Bank's procedures, instructions, manuals, templates and other relevant documentation. It also disseminates information on legislative changes to all relevant departments within the Bank. The Legal department also participates in drafting laws and regulatory documents upon request of legislators and regulators, certain associations and other professional bodies.

The Tax Compliance unit of the Finance department focuses on the Bank's relationship with the tax authorities and provides practical advice and monitors tax compliance across the Group.

Each of the foregoing departments is provided with policies and/or manuals that are approved by the Bank Management Board and/or the Bank Supervisory Board. The manuals and policies include comprehensive guidance for each stage of a transaction, including, but not limited to, manuals outlining asset and liability management policies, foreign exchange operations procedures, fixed income investment guidelines, retail banking operations procedures, the deposit policy and the Credit Policies.

Risk Measurement and Reporting

The Bank measures risk using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. These models use probabilities derived from historical experience, adjusted from time to time to reflect the economic environment. The Bank also runs worst case scenarios that could arise in the event that those extreme events, however unlikely, do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. The Bank also conducts ongoing monitoring and control allowing efficient adjustments in case of any unexpected changes in the conditions on which the preliminary risk assessment was made. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

The Bank maintains a management reporting system which requires the Credit Risk Management, Finance and Funding departments to prepare certain reports on a daily and monthly basis. On a daily basis, a statement of operations, balance sheet and Treasury Report (which includes the Bank's open foreign exchange positions, cash flows, limits and balances on NOSTRO and LORO correspondent accounts) and confirmation that there has been compliance with mandatory financial ratios must be provided by each department. On a monthly basis, a report on the structural liquidity gap, a report on interest rate risk, monthly financial statements, and a Bank Supervisory Board quarterly report containing analysis of the Bank's performance against its budget are provided.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Bank Management Board, and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Bank Management Board and Bank Supervisory Board receive a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and draw conclusions on the Bank's risk exposure.

Specifically tailored risk reports are prepared and distributed for all levels throughout the Bank in order to ensure that all business divisions have access to extensive, relevant and up-to-date information. A daily briefing is given to the Bank Management Board and all other relevant employees of the Bank on the utilisation of market limits on proprietary investments and liquidity, plus any other risk developments.

Risk Mitigation and Excessive Risk Concentration

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forward transactions. While these are intended for hedging, these do not qualify for hedge accounting.

The Bank actively uses collateral to reduce its credit risks.

Concentrations arise when a number of counterparties, or related shareholders, are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentrations of risks, the Bank focuses on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. See "— Credit Risk" below.

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk is managed through the ALCO-approved liquidity framework. Treasury manages liquidity on a daily basis. In order to manage liquidity risk, it performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of the assets/liabilities management process.

The Finance department prepares and submits monthly reports to the ALCO. The ALCO monitors the proportion of maturing funds available to meet deposit withdrawals and the amounts of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk management framework models the ability of the Bank to fund under both normal conditions and during a crisis situation. The Bank has developed a model based on the Basel III liquidity guidelines. This approach is designed to ensure that the funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The liquidity management framework is reviewed from time to time to ensure it is appropriate to the Bank's current and planned activities. Such review encompasses the funding scenarios modelled, the modelling approach, wholesale funding capacity, limit determination and minimum holdings of liquid assets. The liquidity framework is reviewed by the ALCO prior to approval by the Bank Management Board.

The Finance department also undertakes an annual funding review that outlines the current funding strategy for the coming year. This review encompasses trends in global debt markets, funding alternatives, peer analysis, estimation of the Bank's upcoming funding requirements, estimated market funding capacity and a funding risk analysis. The annual funding plan is reviewed by the Bank Management Board and approved by the Bank Supervisory Board as part of the annual budget. The Funding and Treasury departments also review, from time to time, different funding options and assess the refinancing risks of such options.

The Bank's capability to discharge its liabilities is dependent on ability to realise an equivalent amount of assets within the same period of time. The Bank maintains a portfolio of highly marketable and diverse assets that it believes can be easily liquidated in the event of an unforeseen interruption of cash flow. It also has committed lines of credit that it can access to meet its liquidity needs. Such lines of credit are available through the NBG's refinancing facility. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted. As of 31 October 2011, in line with the NBG's requirements, 15% of customer deposits in foreign currencies are set aside as minimum reserves. In addition, the Bank maintains a minimum average balance of 10% of its customer deposits in Georgian Lari at its correspondent account at the NBG. For wholesale funding, the NBG requires the Bank to set aside 15% of its unsubordinated foreign currency wholesale funding for borrowings with remaining maturity of less than one year, 5% for borrowings with a remaining maturity of more than one year (but less than two years) and 10% of its unsubordinated Georgian Lari wholesale funding with a remaining maturity of less than one year.

In the Georgian marketplace, the majority of working capital loans are short-term and are granted with the expectation of renewing such loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented elsewhere. In addition, the maturity gap analysis does not reflect the historical stability of current accounts.

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

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

As of 30 June 2011, the Group's total consolidated amounts due to customers were GEL 2,228.5 million (U.S.$1,336.8 million) (as compared to GEL 2,026.3 million as at 31 December 2010) and represented 66.1% (as compared to 61.2% as at 31 December 2010) of the Group's total liabilities. As of 31 December 2009, total amounts due to customers were GEL 1,273.1 million (as compared to GEL 1,193.1 million as of 31 December 2008) and represented 55.0% (as compared to 47.0% as of 31 December 2008) of the Group's total liabilities. Included in amounts due to customers are term deposits of individuals. In accordance with the Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. In case of early withdrawal, the interest on deposit is foregone or reduced.

As of 30 June 2011, total amounts due to credit institutions were GEL 986.6 million (U.S.$591.8 million) (as compared to GEL 1,138.9 million as of 31 December 2010) and represented 29.3% (as compared to 34.4% as at

31 December 2010) of the Group's total liabilities. As of 31 December 2009, total amounts due to credit institutions were GEL 928.6 million (as compared to GEL 1,216.7 million as of 31 December 2008) and represented 40.1% (as compared to 47.9% as of 31 December 2008) of the Group's total liabilities. Amounts due to credit institutions are taken from a wide range of counterparties.

The BGH Directors believe that each of the Group's and the Bank's liquidity is sufficient to meet each of their present requirements.

Market Risk

The Bank is exposed to market risk (including currency exchange rate risk and interest rate risk), which is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk exposure arises from open positions in fixed income and currencies, all of which are exposed to market fluctuations. The general principles of the Bank's market risk management policy are set by the ALCO. The Bank aims to limit and reduce the amount of possible losses on open market positions which may be incurred by the Bank due to negative changes in currency exchange rates and interest rates. The Bank classifies exposures to market risk into either trading or non-trading positions. Trading and non-trading positions are managed and monitored using other sensitivity analysis. In order to address these risks, the ALCO specifically establishes VAR limits on possible losses for each type of operation (currently the VAR limit is set for foreign currency exchange operations only) and the Finance and Treasury departments monitor compliance with such limits.

Currency Exchange Rate Risk. Currency exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position. The Bank's currency risk is calculated as an aggregate of open positions and is controlled by setting a VAR calculation (established by the ALCO) with respect to the Bank's currency basket. The Bank uses the historical simulation method based on one-year statistical data. Its open currency positions are managed by the Treasury department and Finance department on a day-to-day basis and are monitored by the Head of Treasury on a real-time basis. The ALCO sets open currency position limits with respect to both overnight and intraday positions and stop-loss limits. Currently, the Bank's proprietary trading position is limited by the ALCO to a VAR of 5 basis points of the its NBG regulatory capital for a one-day trading period with a 95.0% "tolerance threshold", but the open position is limited to a maximum of 15.0% of its NBG regulatory capital. The ALCO limit of 15.0% is more conservative than NBG, which allows banks to keep open positions of up to 20.0% of regulatory capital. The Bank additionally limits open foreign currency positions other than US Dollars and Lari to 1% of the regulatory capital. The Bank also applies sensitivity stress tests to its open currency positions to estimate potential negative impact on its net assets and earnings.

Interest Rate Risk. The Bank has exposure to interest rate risk as a result of lending at fixed interest rates in amounts and for periods which differ from those of term borrowings at fixed and floating interest rates. Interest margins on assets and liabilities having different maturities may increase or decrease as a result of changes in market interest rates.

Similarly to other Georgian banks, the majority of the Bank's assets and deposits have fixed interest rates. In order to minimise interest rate risk, the Bank monitors its interest rate (repricing) gap and maintains an interest rate margin (net interest income before impairment of interest earning assets divided by average interest earning assets) sufficient to cover operational expenses and risk premium. Within limits approved by the Bank Supervisory Board, the ALCO approves ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities. Compliance with the Bank's interest rate policy is monitored by the Head of the Financial Risk Management unit of the Finance department and the Head of the Treasury department.

As of 30 June 2011, the Bank's floating rate borrowings accounted for 9.0% of the Bank's total liabilities. In May 2009, the Bank entered into an ISDA Master Agreement with IFC, pursuant to which from time to time the Bank enters into interest rate swaps with IFC to hedge its US Dollar interest rate risk on its outstanding long-term borrowings.

The Bank is also subject to prepayment risk, which is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall. The Group reviews the prior history of early repayments by calculating the weighted average rate of early repayments across each credit product, individually, applying these historical rates to the outstanding carrying amount of each loan product as at the reporting date and by further multiplying the product by the weighted average effective annual interest rates per each product. This allows the Bank to calculate the expected amount of unforeseen losses in case of early repayments.

Credit Risk

The Bank is exposed to credit risk, which is the risk that a borrower or counterparty will be unable to pay amounts in full or in part when due. Credit risk arises mainly in the context of the Bank's lending activities. The general principles of the Bank's credit policy are outlined in the Credit Policies. The Credit Policies also outline credit risk control and monitoring procedures and the Bank's credit risk management systems. The Credit Policies are reviewed annually, or more frequently if necessary. As a result of these reviews, new procedures addressing the standards and methodology for loan loss provisioning pursuant to IFRS requirements were implemented, new loan restructuring tools were introduced and the loan terms were tightened. The Bank also uses the NBG's provisioning methodology in order to comply with NBG requirements.

The Bank manages its credit risk by placing limits on the amount of risk accepted with respect to individual corporate borrowers or groups of related borrowers, liability of insurance companies, types of banking operations and by complying with the exposure limits established by the NBG. The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for the loan impairment. The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements. The exposure to individual corporate borrowers (including financial institutions) is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits with respect to trading terms such as foreign exchange contracts.

The Credit Committees approve individual transactions, establish credit risk categories and establish credit risk categories and provisioning rates in respect of such transactions. The Deputy CEO (Chief Risk Officer) and Credit Risk Management department reviews the credit quality of the portfolio and sets provisioning rates, in consultation with the Bank's CEO and Deputy CEO (Finance), on a monthly basis. See "— Risk Management Structure — Risk Management Bodies — Credit Committees".

The Bank's credit quality review process provides early identification of possible changes in the creditworthiness of counterparties, including regulator collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position.

The Bank makes available to its customers guarantees/letters of credit which may require that the bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee/letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The Bank's compliance with credit risk exposure limits is monitored by the Credit Risk Management department on a continuous basis. Exposure and limits are subject to annual or more frequent review. The Bank establishes provisions for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The Bank creates provisions by reference to the particular borrower's financial 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 an analysis of the assets at risk and reflects the amount which, in the judgment of the Bank's management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of financial assets. Provisions are made against gross loan amounts and accrued interest.

Under the Bank's internal loan loss allowance methodology, which is based upon IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. Significant loans are defined as loans in the amount of GEL 600,000 or more and non-significant loans are defined as loans less than GEL 600,000. The Credit Risk Management department makes an individual assessment of significant loans and loans with category A rating are given a collective assessment rate. All significant loans other than category A are provisioned individually depending on the category they fall in Categories are determined according to borrower's financial performance, business performance, leverage, credit history, quality of management and shareholders' support. In addition, the loan to collateral ratio and quality of collateral may affect the provisioning rates of individually assessed loans. All non-significant loans are divided into different groups (for example mortgage, consumer, micro-financing loans). All non-significant loans that are overdue more than 30 days are provisioned individually mainly based on the overdue days. All non-impaired non-significant loans, as well as non-impaired prime rated significant loans, are assessed collectively within the sub-loan portfolio categories based upon historical loss rates. Non-significant loans which are overdue for more then 150 days are written off automatically, except for mortgage loans which, since June 2009, are written off once overdue for more than 365 days. Significant loans may be written-off following an assessment by the Deputy CEO, Chief Risk Officer and the Credit Risk Management department, in consultation with the Bank's CEO and Deputy CEO, Finance.

The following table sets out the Bank's provisioning methodology for significant loans, which is in line with IFRS requirements.

Loan Category	**Internal Provisioning Range** *(Percentage)*
A	collective assessment rate
B	10-30%
C	30-50%
D	50-100%
E	100%

The BGH Directors believe the Bank's loan portfolio is conservatively provisioned. In 2008, the Bank's loan portfolio quality deteriorated. As a result, the gross outstanding amortised cost of the Group's past-due (for at least one day) or individually impaired loans in the portfolio, before deduction of any allowance for impairment was GEL 383.1 million (17.9% of the Group's gross loan portfolio) as of 31 December 2008, mainly as a result of extraordinary loan impairment charges on the loan book in Georgia (largely due to the 2008 Conflict) and loan impairment charges in Ukraine due to deteriorating market conditions in Ukraine in the second half of 2008.

The gross outstanding amortised cost of individually impaired loans of the Group as of 30 June 2011 and 31 December 2010, 2009 and 2008 comprised GEL 321.2 million (US$192.7 million), GEL 276.4 million, GEL 512.4 million and GEL 377.5 million, respectively. For further information on the assessment of individually impaired loans, see Note 30 (Risk Management) of the Audited Financial Statements.

See "Selected Statistical and Other Information — Loan Portfolio — Loans by Amounts and Number of Borrowers" for a list of the Group's ten largest borrowers by industry as of 30 June 2011.

The following table provides information on the Group's loans past due more than 90 days:

	As of 30 June		**As of 31 December**		
	2011		**2010**	**2009**	**2008**
	(thousands of Lari)	*(thousands of US Dollars)*[(1)]	*(unaudited) (thousands of Lari)*	*(thousands of Lari)*	*(thousands of Lari)*[(1)]
Loans past due more than 90 days	78,420	47,043	117,580	139,954	61,474

Note:

(1) Converted into US Dollars for convenience using an exchange rate of GEL 1.667 per US$1.00, being the official Lari to US Dollar exchange rate as reported by the NBG on 30 June 2011.

For further information on the Group's loans past due more than 90 days, please see Note 30 (Risk Management) of the Six Month Audited Financial Statements.

The Bank has a Problem Loan Recovery department, which reports to the Deputy CEO (Chief Risk Officer). The Group wrote-off GEL19.3 million for the six months ended 30 June 2011 (as compared to GEL 15.2 million for the six months ended 30 June 2010), GEL 77.5 million for the year ended 31 December 2010, GEL 80.8 million for the year ended 31 December 2009 and GEL 45.7 million for the year ended 31 December 2008. For the six months ended 30 June 2011, the Group recovered GEL 13.8 million from previously written-off loans (compared to GEL 15.3 million for the six months ended 30 June 2011) whilst, for the year ended 31 December 2010, the Group recovered GEL 42.7 million (compared to GEL 30.5 million for the year ended 31 December 2009 and GEL 11.2 million for the year ended 31 December 2008).

For a detailed description of the Bank's lending policies and procedures, see Part XV "Lending Policies and Procedures".

Operational Risk

The Bank is exposed to operational risks, arising out of the various operational activities in which it is engaged. Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank aims to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and training and assessment processes, including the use of internal audit.

The Bank manages its operational risks by establishing, monitoring and continuously improving its policies and procedures relating to the various aspects of the Bank's cash, payments, accounting, trading and core processing operations and data backup and disaster recovery arrangements.

The Bank has an integrated control framework encompassing operational risk management and control, AML compliance, corporate and information security and physical security, each of which is managed by a separate department, and an internal audit function for the Bank Group.

The Operational Risk Management and Control department is responsible for identification and assessment of operational risk categories within the Bank's processes and operations, detecting critical risk areas or groups of operations with an increased risk level, developing response actions and the imposition of restrictions in critical risk zones to neutralise identified risk and developing business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibilities. The Operational Risk Management and Control department is also responsible for developing and updating policies and procedures and ensuring that these policies and procedures meet legal and regulatory requirements and help to ensure that material operating risks are within acceptable levels. It also monitors and periodically reviews the Bank's internal control systems to detect errors or infringements by the Bank's departments and divisions. The Head of the Operational Risk Management department, who reports to the Deputy CEO (Chief Risk Officer) is responsible for the oversight of the Bank's operational risks.

Anti Money Laundering Compliance

The Bank's AML Compliance department is responsible for the implementation of the Bank's AML programme (including the development of AML policies and procedures, transaction monitoring and reporting and employee training) throughout the Bank and its subsidiaries. The AML programme is based on recommendations and requirements of Georgian and international organisations including FATF/GAFI and OFAC recommendations. The Bank's Internal Audit department audits the AML Compliance department and monitors implementation of the AML programme. It is fully independent of all other business functions within the Bank.

The Bank has policies and procedures aimed at preventing money laundering and terrorist financing, including a general anti-money laundering policy and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for reporting to the FMS, a legal entity of public law. The FMS was established in 2003 and serves as Georgia's financial intelligence unit. These procedures aim to, among other things, minimise the risk of the Bank being used as a vehicle for money laundering or terrorist financing, protect the Bank from financing and reputation risks of being associated with money laundering or terrorist financing activities and ensure that banking services are provided only to bona fide clients.

The Bank has implemented specific policies and procedures in order to satisfy the requirements of the EU's Third Directive, which requires financial institutions to identify and verify the identity of its customers and their beneficial owners and monitor its customers' transactions, while taking into account a risked-based approach. Adopting a risk-based approach implies the adoption of a risk management process for dealing with money laundering and terrorist financing. This process encompasses recognising the existence of risks, undertaking an assessment of those risks and developing strategies to manage and mitigate the identified risks. The Bank uses a risk assessment matrix based on the client, sector, country and product risk. The Bank has a general AML policy; "know your customer" procedures that require it to identify its clients, verify their identity and their ultimate beneficial owners as well as the economic rationale of their transactions; "know your correspondent bank" procedures that involve careful screening of prospective correspondent banks' AML policies; and "know your employee" procedures to prevent its employees' involvement in money laundering and financing terrorism.

The Bank's risk-based approach means that it applies enhanced due diligence procedures if it determines that there is a significant risk that particular clients are engaged in money laundering and financing terrorism.

The Bank carries out transaction monitoring using profiling and rules-based methodologies. Customer profiling is used to identify unusual patterns of activity by comparing current patterns with previous transactions by the same customer or peer group. Under the rule-based methodology, certain types of transactions over GEL 30,000 or its equivalent in foreign currencies as well as transactions involving certain high-risk, non-cooperative or suspicious jurisdictions are subject to monitoring and reporting.

The Bank's transaction monitoring system is supported by a software application that enables fully-automated monitoring of all transactions against blacklists. These blacklists include all sanctions lists and lists of banned individuals and organisations maintained by OFAC, the European Union, the United Nations and Interpol, including OFAC's specially designated nationals list, among others. The Bank also screens clients to determine whether they are politically exposed persons or other high risk customers. It applies special KYC procedures prior to opening an account for a politically exposed person and requires approval from a deputy CEO.

The Bank is obliged to notify the FMS of all transactions that are subject to monitoring. These reports are currently filed in electronic form in the offline mode by the AML Compliance department, although the Bank is implementing a new application to enable online automated filing.

Internal Audit

The Internal Audit department ensures that the Bank's policies conform to current legislation and regulation and professional norms and ethics. The Internal Audit department is responsible for monitoring and assessing the adequacy of compliance with internal procedures at all levels of the Bank's management. This department regularly inspects the integrity, reliability and compliance with applicable law of operations conducted by the Bank's risk management departments, and regularly reviews the reliability of the Bank's information technology systems in accordance with a predetermined schedule. It also assesses the reliability and security of financial information and monitors the Bank's internal controls and reporting procedures.

The Internal Audit department is independent of the Bank Management Board. The Head of the Internal Audit department is appointed by the Bank Supervisory Board and reports directly to the Bank Audit Committee. The Internal Audit department has 10 employees. The Bank's Internal Audit Department audits all of the Bank's subsidiaries, apart from BNB and ABCI who each have their own internal audit departments that report to the Bank's Internal Audit Department.

The principal function of the Internal Audit department is to reduce the levels of operational and other risks, audit the Bank's internal control systems, and detect any infringements or errors on the part of the Bank's departments and divisions.

As part of its auditing procedures, the Internal Audit department is responsible for the following:

- identifying and assessing potential risks regarding the Bank's operations;
- reviewing the adequacy of the existing controls established in order to ensure compliance with the Bank's policies, plans, procedures and business objectives;
- developing internal auditing standards and methodologies;
- carrying out planned and random inspections of the Bank's branches and subdivisions and auditing its subsidiaries;
- analysing the quality of the Bank's products;
- participating in external audits and inspections by the NBG;
- making recommendations to management on the basis of external and internal audits to improve internal controls;
- monitoring the compliance of the Bank with the NBG regulations; and
- monitoring the implementation of auditors' recommendations.

The Internal Audit Department applies a risk-based audit approach to asses the significant risks that impact the Bank's business, how (and how well) those risks are managed and controlled, what measures are used to monitor the process, the reliability of the Bank's key performance indicators and management information and the efficiency of the process.

PART XVII

DIRECTORS, SENIOR MANAGEMENT, CORPORATE GOVERNANCE AND EMPLOYEES

BGH Directors

The following table sets out the name, age, position and term of appointment of each of the BGH Directors.

Name	Age	Position	Term of appointment/ Reappointment
Neil Janin	61	Independent Non-Executive Chairman	3 years
Irakli Gilauri	35	Chief Executive Officer	3 years
David Morrison	58	Senior Independent Non- Executive Director	3 years
Alasdair (Al) Breach	40	Independent Non- Executive Director	3 years
Allan Hirst	61	Independent Non- Executive Director	3 years
Kakhaber (Kaha) Kiknavelidze	39	Independent Non- Executive Director	3 years
Ian Hague	50	Non- Executive Director	3 years
Hanna-Leena (Hanna) Loikkanen	42	Non- Executive Director	3 years

The business address of each of the BGH Directors is 84 Brook Street, London, W1K 5EH, United Kingdom. Biographical details of each of the BGH Directors, together with details of their responsibilities within the Group are set out below.

Neil Janin was appointed as a Director of BGH on 24 October 2011 and serves as Chairman of the BGH Board. He also serves as Chairman of the BGH Nomination Committee and as a member of the BGH Remuneration Committee. He has served as Chairman of the Bank Supervisory Board since 2010. Outside of the Group, Mr Janin serves as counsel to Chief Executive Officers of both for-profit and non-profit organisations, and provides consulting services to McKinsey & Co. He also serves as a director in a number of business and non-profit organisations. Prior to joining the Bank, Mr Janin was Director of McKinsey & Co. in its Paris office. He was employed by the firm for over 27 years, from 1982 until his recent retirement. At McKinsey and Co., he conducted engagements in retail, asset management and corporate banking areas, he was also involved in every aspect of organisational practice such as design, leadership, governance, performance enhancement and transformation. Mr Janin has practised in Europe, Asia and North America. In addition, in 2009, while serving as member of the French Institute of Directors (IFA), Mr Janin authored a position paper on the responsibilities of the board of directors with regards to the design and implementation of a company's strategy. Before joining McKinsey & Co., Mr Janin worked for the Chase Manhattan Bank (now JP Morgan Chase) in New York and Paris, and Procter & Gamble in Toronto. Mr Janin holds an MBA from York University, Toronto and a joint honours degree in Economics and Accounting from McGill University, Montreal.

Irakli Gilauri was appointed as a Director of BGH on 24 October 2011 and serves as Chief Executive Officer of BGH. He is also Chairman of the BGH Executive Committee. He has served as the Chief Executive Officer of the Bank since May 2006. He previously served as Chief Financial Officer of the Bank from September 2004 to 2006. Before his employment with the Bank, Mr Gilauri was a banker at EBRD's Tbilisi and London offices for four years, where he worked on transactions involving debt and private equity investments in Georgian companies. Mr Gilauri also currently serves as Chairman of the supervisory board of ABCI and as member of the supervisory board of the following subsidiaries of the Bank: BG Capital, BNB and Joint Stock Company Galt & Taggart Holdings. Mr Gilauri received his undergraduate degree in Business Studies, Economics and Finance from the University of Limerick, Ireland, in 1998. He was later awarded the Chevening Scholarship, granted by the British Council, to study at the Cass Business School of City University, London, where he obtained his Master of Science Degree in Banking and International Finance in 2004.

David Morrison was appointed as a Director of BGH on 24 October 2011 and serves as a Senior Independent Non-Executive Director. He is also a member of the BGH Audit Committee, the BGH Nomination Committee and the BGH Remuneration Committee. He has served as Vice-Chairman of the Bank Supervisory Board since 2010, and has served as member of the Bank Supervisory Board since June 2009. He has also served as a member of the Bank Audit Committee since June 2010. Prior to joining the Bank Supervisory Board, in 2008 he became founding executive director of the Caucasus Nature Fund (CNF), a charitable trust fund dedicated to nature conservation in Georgia, Armenia and Azerbaijan. Prior to joining the CNF, Mr Morrison worked for 28 years at Sullivan & Cromwell LLP, where he served as Managing Partner of the firm's continental European offices. His practice focused on advising public companies in a transactional context, from mergers and acquisitions to capital raisings. Key banking clients he advised include Banco Espirito Santo in Portugal and Germany's development bank KfW (Mr. Morrison served on the board of directors of KfW's finance subsidiary for 20 years). Mr. Morrison is the author of several publications on securities law related topics, and has been recognised as a leading lawyer in two jurisdictions — Germany and France. Mr Morrison graduated from Yale College in 1974, received his Law degree from UCLA, and was a Fulbright scholar at the University of Frankfurt.

Alasdair (Al) Breach was appointed as a Director of BGH on 24 October 2011 and serves as a Non-Executive Director. He is also Chairman of the BGH Remuneration Committee and a member of the BGH Nomination Committee. He has served as a member of the Bank Supervisory Board since 2010 and served as an advisor to the Bank Supervisory Board from late 2009. Since June 2010, Mr Breach has also served as Chairman of the Bank Remuneration Committee. Outside of the Bank, Mr Breach runs Furka Advisors, a Swiss-based asset management firm, and is the co-founder of The Browser.com, a web-based curator of current affairs writing, established in 2008. He has also served on the board of Vostok Nafta Investment Ltd., a Russia-focused Stockholm-based investment company, since 2007. In January 2003, Mr Breach joined Brunswick UBS (later UBS Russia) as Chief Economist, and later additionally became Head of Research and MD until October 2007. From 1998 to 2002 Mr Breach was Russia and FSU economist at Goldman Sachs, based in Moscow. He obtained an MSc in Economics from LSE and a degree in Mathematics with Philosophy from Edinburgh University.

Allan Hirst was appointed as a Director of BGH on 24 October 2011 and serves as a Non-Executive Director. He is Chairman of the BGH Audit Committee and a member of the BGH Nomination Committee. He has also served as a member of the Bank Supervisory Board since 2006. Mr Hirst also acted as Vice-Chairman of the Bank Supervisory Board between 2008 and 2010. Mr Hirst has also served as Chairman of the Bank Audit Committee since June 2010. Prior to joining the Bank, he was employed by Citibank N.A. for nearly 25 years until his retirement in February 2005. At Citibank he led the bank's expansion into Central and Eastern Europe, Russia and Central Asia. From 1999 to 2004, Mr Hirst served as President and Managing Director of ZAO Citibank Russia, having an oversight over the bank's operations in the CIS. Prior to moving to Russia, Mr Hirst worked in various senior capacities at Citibank, including as division executive in the Middle East and Indian Sub-continent and as division executive responsible for establishing the bank's network in Central and Eastern Europe. Mr Hirst additionally serves as non-executive director of the Financial Services Volunteer Corps and Phico Therapeutics. He is also a member of Executive Committee of the board of the FSVC. Mr Hirst received an MBA from University of Texas.

Kakhaber (Kaha) Kiknavelidze was appointed as a Director of BGH on 24 October 2011 and serves as a Non-Executive Director. He is also a member of the BGH Audit Committee and the BGH Nomination Committee. He has served as a member of the Bank Supervisory Board since February 2008. Mr Kiknavelidze has also served as a member of the Bank Audit Committee since December 2008. Joining the Bank Supervisory Board is his second role within the Bank, having started his career as Financial Manager at the Bank in 1994. He is also the managing partner of Rioni Capital Partners LLP, the investment management company which he founded in 2007. Mr Kiknavelidze has over 14 years of experience in the equity markets, including serving as Executive Director of UBS where he supervised the Russian oil and gas research team. Prior to joining UBS, he spent eight years at Troika Dialog, initially covering metals and mining and the utilities sectors and later, as deputy head of research and associate partner, leading the oil and gas team. Mr Kiknavelidze received his undergraduate degree in Economics with honours from the Georgian Agrarian University in Tbilisi, Georgia and received his MBA from Emory University in the United States.

Ian Hague was appointed as a Director of BGH on 24 October 2011 and serves as a Non-Executive Director. He is also a member of the BGH Nomination Committee. He has also served as a member of the Bank Supervisory Board since 2004. Mr Hague has also served as a member of the Bank Remuneration Committee since January 2006. Mr Hague is also the Managing Partner and co-founder of Firebird Management LLC, a New York-based investment fund since 1994. Prior to this, he worked for the United Nations Secretariat. Mr Hague received his undergraduate degree from Wesleyan University in 1983 and was awarded a Masters degree from Monterey Institute of International Studies. He has also conducted graduate work at Columbia University's Harriman Institute.

Hanna-Leena (Hanna) Loikkanen was appointed as a Director of BGH on 24 October 2011 and serves as a Non-Executive Director. She is also a member of the BGH Nomination Committee. She has served as a member of the Bank Supervisory Board since 2010 and has served as a member of the Bank Remuneration Committee since February 2011. Ms Loikkanen has over 17 years of experience in working with financial institutions in Russia and Eastern Europe. She has been the Chief Representative and Head of the Private Equity team at East Capital, a Swedish asset management company in Moscow, since November 2007. Ms Loikkanen previously held the position of Country Manager and Chief Executive Officer at FIM Group in Russia, a Finnish investment bank, where she was responsible for setting up and running the Bank's brokerage and corporate finance operations in Russia. Before joining FIM Group, Ms Loikkanen worked for Nordea Finance for four years in various management positions in Poland, the Baltic States and Finland. Earlier in her career, Ms Loikkanen worked for Merita Bank in St. Petersburg as Chief Representative as well as SEB in Moscow. She holds a Masters degree in Economics and Business Administration from the Helsinki School of Economics.

Key Senior Managers

The key senior managers of the Group comprise, in addition to the BGH Directors, members of the Bank Supervisory Board and the Bank Management Board (members of the Bank Supervisory Board and the Bank Management Board, together, the **"Bank Directors"**). The Bank has a two-tier board structure comprising a Bank Supervisory Board comprising only non-executive directors, including the Bank's Chairman, and a Bank Management Board led by the Bank's Chief Executive Officer. Details of the members of the Bank Supervisory Board and the Bank Management Board are set out below.

Bank Supervisory Board

The Bank Supervisory Board is responsible for supervising the Bank Management Board. The Bank Supervisory Board also assists the Bank Management Board by giving advice. In performing their duties, the Bank Supervisory Board members are required to act in the best interests of the Bank and its shareholders. The Bank Supervisory Board approves the remuneration and other conditions of employment for each member of the Bank Management Board. Certain resolutions of the Bank Management Board are subject to the prior approval of the Bank Supervisory Board.

The Bank Supervisory Board has the same members as BGH's Board of Directors, save for Irakli Gilauri, who is a member of the Bank Management Board (see below). For biographical details of each of the Bank Supervisory Board members, please see "— BGH Directors", above. Each of the members of the Bank Supervisory Board can be contacted through BGH's principal place of business, 84 Brook Street, London, W1K 5EH, United Kingdom.

Bank Management Board

The Bank Management Board is an executive body that is responsible for the day-to-day management of the Bank (with the exception of the functions reserved to the GMS and the Bank Supervisory Board) and consists of the Bank's Chief Executive Officer and not less than three deputy Chief Executive Officers of the Bank. The Bank Management Board is accountable to the shareholders of the Bank and the Bank Supervisory Board and its members are appointed and dismissed by the Bank Supervisory Board. The statutory term of each member of the Bank Management Board is four years. Banking regulations contain certain limitations as to who may become a member of the Bank Management Board and criteria that each member must fulfil (see Part XXIII "Regulation of the Georgian Banking Sector — Regulation of Commercial Bank Employees and Bank Supervisory Board Members").

The following table sets out the name, age, current position and term of appointment of the members of the Bank Management Board.

Name	Age	Position	Expiration of Term of office/ Reappointment
Irakli Gilauri	35	Chief Executive Officer	August 2013
George (Giorgi) Tchiladze	40	Deputy CEO (Finance)	April 2013
Michail Gomarteli	36	Deputy CEO (Retail Banking)	April 2013
Archil Gachechiladze	32	Deputy CEO (Corporate Banking)	April 2013
Vasili Revishvili	38	Deputy CEO (Wealth Management)	April 2013
Sulkhan Gvalia	37	Deputy CEO (Chief Risk Officer)	April 2013
Avtandil (Avto) Namicheishvili	37	Deputy CEO (Legal)	April 2013
Murtaz Kikoria	38	Deputy CEO (Investments and Strategic Projects)	April 2013
Irakli Burdiladze	37	Deputy CEO (Affordable Housing)	April 2013

Each of the members of the Bank Management Board can be contacted through the Bank's principal place of business at 29a Gagarin Street, Tbilisi, Georgia, 0160. For Irakli Gilauri's biographical details, please see "BGH Directors", above. The biographical details of each of the other members of the Bank Management Board are set out below.

George (Giorgi) Tchiladze was appointed as Deputy CEO (Finance) of the Bank in October 2008. Prior to joining the Bank, Mr Tchiladze had served as General Director of Joint Stock Company BTA Bank (Georgia) since August

2005. Prior to that, he served as an executive member of the supervisory board of Joint Stock Company Europace Insurance Company (2004-2005) and was a founding partner of the management consulting firm, Altergroup Ltd. From 2000, Mr Tchiladze had worked at the Program Trading Desk at Bear Stearns in New York City, before returning to Georgia in 2003. Mr Tchiladze received an undergraduate degree in physics from Tbilisi State University and received a Ph.D in physics from Johns Hopkins University.

Michail Gomarteli was appointed to the Bank Management Board as Deputy CEO (Retail Banking) in February 2009. Mr Gomarteli has been with the Bank since December 1997. During his 14 years of service with the Bank, Mr Gomarteli has held various senior positions including Co-Head of Retail Banking (from March 2007 to February 2009), Head of Business Development (from March 2005 to July 2005), Head of Strategy and Planning (from 2004 to 2005), Head of Branch Management and Sales Coordination (from 2003 to 2004), Head of Branch Management and Marketing (from 2002 to 2003) and Head of Banking Products and Marketing (from 2000 to 2002). Mr Gomarteli holds a Diploma in Economics from Tbilisi State University.

Archil Gachechiladze was appointed as Deputy CEO (Corporate Banking) of the Bank in October 2009, having previously served as deputy director in charge of Corporate Recovery at TBC Bank, Georgia, since August 2008. Prior to joining the Bank, from 2006 to 2008, Mr Gachechiladze was an Associate at Lehman Brothers Private Equity (currently Trilantic Capital Partners) in London. From 1998 to 2004, Mr Gachechiladze served as a Senior Associate at Salford Equity Partners (US$350 million fund with offices in London, Moscow, Belgrade and Tbilisi), a Senior Analyst at EBRD in Tbilisi and London, a Senior Financial Analyst at KPMG Barents in Tbilisi and as a Team Leader for the World Bank's CERMA Project in Tbilisi. Mr Gachechiladze is a CFA Charterholder and a member of the CFA Society in the United Kingdom. He received an MBA with distinction from Cornell University and undergraduate degrees in Economics and Law from Tbilisi State University.

Vasili Revishvili was appointed as Deputy CEO (Wealth Management) of the Bank in June 2011 after serving as Global Head of Wealth Management for the Bank since February 2009. Mr Revishvili joined the Bank in August 2008 as Head of Structured Products. Prior to joining the Bank, Mr Revishvili worked for four years at Pictet Asset Management in London and Geneva as Head of the Investment Risk Unit and later as a Senior Investment Manager in the Balanced and Quantitative Investment Team. From 1995 to 2003, Mr Revishvili held various positions at EU-TACIS Counterparty Fund, Georgian Investment Centre and World Bank Tbilisi Water Project. Mr Revishvili received an undergraduate degree in Applied Mathematics and Computer Sciences from Tbilisi State University and a Masters Degree in Finance with distinction from the London Business School. Mr Revishvili is also a designated Financial Risk Manager by the Global Association of Risk Professionals.

Sulkhan Gvalia has served as Deputy CEO (Chief Risk Officer) of the Bank since January 2005. From 1995 to 2004, Mr Gvalia served as Deputy Chairman of the Management Board of TbilUniversalBank (TUB), acquired by the Bank in November 2004. During his tenure at TUB, Mr Gvalia headed several departments, including finance, accounting and strategy. Mr Gvalia received his undergraduate law degree from Tbilisi State University.

Avtandil (Avto) Namicheishvili has served as Deputy CEO (Legal) of the Bank since July 2008, having previously been the Bank's General Counsel since March 2007. He is also a member of the BGH Executive Committee. Before joining the Bank, Mr Namicheishvili was a partner at Begiashvili & Co. Limited, a leading Georgian law firm, where he acted as the Bank's external legal advisor from 2004. Mr Namicheishvili received undergraduate degrees in law and international economic relations from Tbilisi State University and received a graduate degree (LLM) in International Business Law from Central European University, Hungary.

Murtaz Kikoria was appointed as Deputy CEO (Investments and Strategic Projects) of the Bank in June 2011 after serving as Acting Chief Executive Officer of BG Bank since June 2009. Mr Kikoria also serves as a member of the Supervisory Board of BG Bank. Mr Kikoria joined the Bank as Deputy CEO (Compliance) in August 2008. From 2005 to 2007, Mr Kikoria served as a Senior Banker at EBRD. Prior to joining EBRD, Mr Kikoria served as Head of Banking Supervision and Regulation at the NBG from 2001 to 2005, having previously held various senior positions at United Georgian Bank and SilkRoad Bank. Mr Kikoria has also held the position of Chairman of the Bank Audit Committee from February 2008. Mr Kikoria received an undergraduate degree from Tbilisi State University in Economics, specialising in Finance and Credit.

Irakli Burdiladze was appointed as Deputy CEO (Affordable Housing) of the Bank in 2010. He previously served as Chief Operating Officer of the Bank from March 2007 to June 2010, after spending a year as Chief Financial Officer. Prior to joining the Bank, Mr Burdiladze served as CFO of the GMT Group, a leading real estate developer and operator in Georgia. As CFO, Mr Burdiladze was responsible for the group's capital raising efforts and transaction structuring. Mr Burdiladze received a graduate degree in International Economics and International Relations from the Johns Hopkins University School of Advanced International Studies and an undergraduate degree in International Relations from the Tbilisi State University.

Senior Managers

Details of the senior managers of the Group (the **"Senior Managers"**) other than the BGH Directors and the Bank Directors, are set out in the table below. The following table sets out the name, age, current position and term of appointment of the Senior Managers.

Name	Age	Position	Expiration of Term of office/ Reappointment
Nikoloz Gamkrelidze	32	CEO, Aldagi BCI	September 2012
Mariam (Macca) Ekizashvili	37	Head of Investor Relations/Head of UK Representative Office	September 2012
Thea Jokhadze	35	Head of Funding	September 2012
Kakhaber Davitaia	37	Head of Treasury	September 2012
David Vakhtangishvili	33	Head of Finance Department	September 2012

Each of the Senior Managers can be contacted through the Bank's principal place of business at 29a Gagarin Street, Tbilisi, Georgia, 0160. Biographical details of the Senior Managers are set out below.

Nikoloz Gamkrelidze has served as CEO of ABCI since November 2007. Prior to joining ABCI, he served as CEO of Joint Stock Company My Family Clinic from October 2005 to October 2007. Prior to joining My Family Clinic, Mr Gamkrelidze served as a consultant at Primary Healthcare Development Project (The World Bank Project) and worked on the development of pharmaceutical policy and regulation in Georgia. Prior to joining Primary Healthcare Development Project, Mr Gamkrelidze served at BCI Insurance Company as Head of the Personal Risks Insurance Department from 2002 to 2003. Mr Gamkrelidze started his career at the State Medical Insurance Company in 1998 and served there until 2002. Mr Gamkrelidze has approximately 10 years of experience in healthcare management and insurance sectors. He graduated from Tbilisi State Medical University faculty of General Medicine with distinction and holds a Masters degree in International Healthcare Management from Imperial College London, Tanaka Business School.

Mariam (Macca) Ekizashvili has served as Head of Investor Relations of the Bank since August 2004. She has also served as Head of the Bank's UK Representative Office since September 2010. Prior to joining the Bank, Ms. Ekizashvili worked for six years as an investment analyst at IFC in Washington D.C. and Tbilisi, Georgia Representative Office. Ms. Ekizashvili holds an MBA from George Washington University School of Business and an undergraduate degree from the International Relations Department at Tbilisi State University.

Thea Jokhadze, CFA, has served as the Head of Funding and later Head of Debt Capital Markets of the Bank since August 2005. Before joining the Bank, Ms. Jokhadze worked as a consultant with Pace Global Services in Washington DC, providing financial advisory to financial institutions and energy companies. Advisory projects included financial and strategic assessment for a top three Russian Bank, as well raising debt and equity financing for energy projects in Russia, Western Europe and North America. Prior to Pace, Ms. Jokhadze spent two years as a Structuring and Pricing Analyst with the Marketing and Trading arm of CMS Energy Corp. (NYSE: CMS) in Houston, Texas, where she structured and priced long-term energy transactions. She was awarded a Chartered Financial Analyst (CFA) title from the CFA Institute. Ms. Jokhadze holds an MA in International Economics and International Relations from the Johns Hopkins University School of Advanced International Studies in Washington DC and Bologna, Italy, and a BA in International Economics from the Georgian Technical University.

Kakhaber Davitaia was appointed as Head of Treasury of the Group in July 2009. Mr Davitaia has been with the Bank since March 1995. During his 16 years of service with the Bank, Mr Davitaia has held various senior positions including Director of Treasury Department (from 2003 to 2009), Deputy Director of Treasury Department (from 1999 to 2003), Head of Funding and Deposit Management Department (from 1998 to 1999) and Head of Correspondent Account's Department (from 1996 to 1998). Mr Davitaia holds a Diploma in Mathematics from Tbilisi State University, Executive MBA degree from Caucasus School of Business, Tbilisi and MBA degree in Business Intelligence from Grenoble Graduate School of Business, Grenoble France.

David Vakhtangishvili was appointed as Head of the Finance Department of the Bank on 1 January 2007. Mr Vakhtangishvili has more than nine years of experience working for international audit firms. Prior to joining the Bank, Mr Vakhtangishvili served as a Senior Manager at Ernst & Young (Georgia) for four years, advising numerous clients in the CIS in a wide range of industries, with expertise in the financial services industry. Over the nine years prior to joining the Bank, Mr Vakhtangishvili focused on auditing the financial statements of clients that have been prepared in accordance with IFRS and has extensive experience in transforming accounts prepared in accordance with national standards to IFRS. Mr Vakhtangishvili additionally specialised in conducting forensic audits, financial and operational due diligence, property and business valuations and market feasibility studies as well as providing operational management optimisation and risk management advice. Mr Vakhtangishvili holds a BBA from European School of Management, Tbilisi, Georgia.

BGH Share Dealing Code

BGH will adopt, with effect from Admission, a share dealing code which is based on, and is at least as rigorous as, the Model Code as published in the Listing Rules.

BGH Inside Information Disclosure Policy

BGH will adopt, with effect from Admission, an Inside Information Disclosure Policy. The policy is designed to contribute to the maintenance of an orderly market in BGH's listed securities and to prevent market abuse, insider dealing and other similar offences by:

- ensuring the timely identification and escalation of inside information;
- denying access to inside information to persons other than those who require it for the exercise of his or her functions;
- ensuring the timely release of inside information where such disclosure is required;
- ensuring any inside information that is released meets the appropriate standard;
- co-ordinating the announcement of inside information using appropriate information services; and
- setting parameters for dealing with rumours and market speculation, and refraining from commenting on such matters unless appropriate public disclosure is required.

The policy will apply to all other members of the Group and their respective directors, officers and employees.

BGH Corporate Governance Policy and Board Committees

The BGH Board recognises the importance of maintaining sound corporate governance practices and BGH is currently in compliance with all of the requirements of the Corporate Governance Code, save that, contrary to the provisions of section D.1.1 of the Corporate Governance Code, the remuneration of BGH's executive director in his capacity as director of the Bank will include share options pursuant to the SEECP which will vest in less than three years. For further, see Paragraph 23 ("Senior Executive Equity Compensation Plan") of Part XXII "Additional Information".

The Corporate Governance Code provides that the board of directors of a United Kingdom public company should include a balance of executive and non-executive directors, with non-executive directors (excluding the Chairman) comprising at least one-half of the board. The Corporate Governance Code states that the board should determine whether a director is independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The BGH Directors support high standards of corporate governance.

The BGH Board comprises eight directors. The BGH Board considers Neil Janin, David Morrison, Al Breach, Allan Hirst and Kaha Kiknavelidze to be independent non-executive directors. The BGH Board views each of these non-executive directors to be independent of management judgment and character and free from any business or other relationship which could materially interfere with their exercise of independent judgment.

The BGH Board is assisted in fulfilling its responsibilities by four principal committees, being the BGH Audit, Nomination, Remuneration and Executive Committees. The terms of reference for each of these committees are summarised below. The members of such committees are appointed by the BGH Board.

BGH Audit Committee

The members of the BGH Audit Committee are Allan Hirst (Chairman of the Audit Committee), David Morrison and Kaha Kiknavelidze, all of whom are considered by the BGH Board to be independent. See "BGH Corporate Governance Policy and Board Committees" above.

The BGH Audit Committee will have responsibility for: (i) recommending the financial statements to the BGH Board and for reviewing the Group's financial reporting and accounting policies, including formal announcements and trading statements relating to the Group's financial performance; (ii) the relationship with the internal and external auditors and for assessing the role and effectiveness of the internal audit function; (iii) reviewing the Group's procedures for detecting, monitoring and managing the risk of fraud; (iv) recommending to the BGH Board the appointment, re-appointment and removal of the external auditors; (v) reviewing the nature, scope and results of the annual external audit; (vi) recommending the audit fee and on an annual basis assesses the effectiveness and independence of the external auditors; and (vii) keeping under review the Group's internal controls and systems for assessing and mitigating financial and non-financial risk.

BGH Nomination Committee

The members of the BGH Nomination Committee are Neil Janin (Chairman of the Nomination Committee), Allan Hirst, David Morrison, Kaha Kiknavelidze, Al Breach, Ian Hague and Hanna Loikkanen, five of whom are considered by the BGH Board to be independent. See "BGH Corporate Governance Policy and Board Committees" above.

The BGH Nomination Committee is constituted to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the BGH Board. The committee is required to give consideration to succession planning for directors and other senior executives; and make recommendations for new appointments of executive and non-executive directors and on the membership of board committees to the BGH Board. The committee will also oversee the annual review of board effectiveness.

BGH Remuneration Committee

The members of the BGH Remuneration Committee are Al Breach (Chairman of the Remuneration Committee), Neil Janin and, David Morrison all of whom are considered by the BGH Board to be independent. See "BGH Corporate Governance Policy and Board Committees" above.

The BGH Remuneration Committee is constituted to determine and make recommendations to the BGH Board the framework or broad policy for the remuneration of the Deputy CEO, the Chairman of BGH, the Executive Directors and such other members of the executive management as it is designated to consider. The BGH Remuneration Committee shall also oversee any major changes in employee benefits structures within the Group. The BGH Remuneration Committee is also required to produce a report of BGH's remuneration policy and practices to be included in BGH's annual report and ensure each year that it is put to shareholders for approval.

BGH Executive Committee

The members of the BGH Executive Committee are Irakli Gilauri and Avto Namicheishvili. Irakli Gilauri is Chairman of the BGH Executive Committee. The BGH Executive Committee will be responsible for taking all the day-to-day decisions relating to the Group apart from those that are reserved for the BGH Board.

Group Employees

As of 30 June 2011 and 31 December 2010, 2009 and 2008, the Group had a total of 4,844, 5,124, 4,475 and 4,679 full-time employees with standard contracts, respectively. The Group's total number of employees (including full time employees with non-standard contracts and full-time employees with temporary contracts) amounted to 5,315, 5,610, 4,781 and 4,949 as of 30 June 2011 and 31 December 2010, 2009 and 2008, respectively.

The following table sets out the Group's full time employees with standard contracts by Group Company and by segment as of 30 June 2011:

Subsidiary and/or segment	Number of full-time employees
Bank of Georgia	**2,945**
Corporate Centre	772
Retail Banking	2,049
Corporate Banking	95
Wealth Management	29
ABCI	**273**
Corporate Centre	191
Retail Banking	42
Corporate Banking	40
BNB	**278**
Corporate Centre	133
Retail Banking	110
Corporate Banking	35
Other subsidiaries total	**1,348**
Total	**4,844**

The Group places significant emphasis on the professional development of its employees. The Group's employees are offered training opportunities at special training centres and various educational institutions. Middle and high level managers participate in workshops and training sessions outside of Georgia and internal training is conducted by instructors invited from Georgian training centres.

The Bank first signed an agreement with an employee trade union in 2001. The next employee trade union agreement was executed in 2004 for a term of four years. Upon expiration of the latter, the Bank executed a one-year employee trade union agreement on 1 January 2009. On 16 April 2010, the Bank entered into a new one-year employee trade union agreement. The principal terms of this agreement required the Bank to observe the provisions of the labour law, to consider trade union proposals and upon an employee's request, deduct trade union membership fees from his or her salary for payment to the trade union. The agreement expired on 16 April 2011.

The Bank is required to withhold income tax at the flat rate of 20.0% on the gross compensation of its employees in Georgia as well as on certain type of business income of individuals. There are no other mandatory contributions.

As of 29 November 2011, 154 employees, excluding the Bank Directors, held an aggregate of approximately 525,700 Existing Securities, representing approximately 1.6% of the Bank's issued share capital. Assuming full acceptance of the Offer and the completion of the Debt Conversion in full, it is anticipated that employees (excluding the Bank Directors) will hold 1.4% of BGH's issued share capital on Admission.

Group Pension Scheme

Every employee of the Group contributes 1.0% of his or her salary to the Bank's defined contribution pension scheme, operated through ABCI. The Group matches the employee's contribution to the pension scheme. The Group matches on a 0.2 to 1 basis additional employee pension scheme contributions up to 1.0% of the employee's gross monthly salary. In addition to a pension scheme, full-time employees of the Group receive health insurance, are permitted to use an overdraft of up to 90% of his or her monthly salary, certain discounts on banking products and may be eligible to receive an annual bonus, subject to the Group's annual profit and the employee's performance.

PART XVIII

CONDITIONS TO AND FURTHER TERMS OF THE OFFER

Part A

Conditions to the Offer

1. Conditions of the Offer

1.1 The Offer will be subject to the Conditions as set out below, each of which may be waived (to the extent any such Condition is capable of being waived) by BGH at any time, in whole or in part, in its sole discretion:

(a) valid acceptances of the Offer being received (and not, where permitted, withdrawn) by no later than the Expiration Time being 5.00 p.m. (London time) / 9.00 p.m. (Tbilisi time) / 12.00 noon (New York time) on the day on which the Offer Period expires (or such later time(s) and/or date(s) as BGH may decide) in respect of not less than 80% in nominal value of the Bank Shares and of the voting rights attached to those shares (or such lower percentage as BGH may decide provided that this condition will not be satisfied unless BGH shall have acquired or agreed to acquire Bank Shares carrying in aggregate more than 75% of the voting rights then normally exercisable at a general meeting of the Bank) (the **"Acceptance Condition"**);

(b) BGH having applied to Euroclear UK for admission of the BGH Offer Shares to CREST as participating securities and no notification having been received from Euroclear UK on or before Admission that such admission or facility for holding and settlement has been or is to be refused;

(c) Admission or, if BGH so determines, the UK Listing Authority having acknowledged to BGH or its agent (and such acknowledgement not having been withdrawn) that the application for admission of the BGH Offer Shares to the premium listing segment of the Official List has been approved and (subject to satisfaction of any conditions to which such approval is expressed) will become effective as soon as a dealing notice has been issued by the FSA and an acknowledgement by the London Stock Exchange that the BGH Offer Shares will be admitted to trading on the Main Market (and such acknowledgement not having been withdrawn) (the **"Admission Condition"**);

(d) all statutory and regulatory obligations in any jurisdiction having been complied with in each case in respect of the Offer and all Authorisations necessary or appropriate in any jurisdiction for or in respect of the Offer and the acquisition or the proposed acquisition of any shares or other securities in, or control or management of, the Bank or any other member of the Group by BGH having been obtained in terms and in a form satisfactory to BGH from all appropriate Third Parties and all such Authorisations necessary, appropriate or desirable to carry on the business of any member of the Group in any jurisdiction having been obtained and all such Authorisations remaining in full force and effect at the time at which the Offer is declared wholly unconditional and there being no notice or intimation of an intention to revoke, suspend, restrict, modify or not to renew such Authorisations, including without limitation the approval by the NBG of the acquisition by BGH of more than 50% of the share capital of the Bank.

(e) no Third Party (including without limitation, any banking or anti-trust regulators) having given notice of a decision to take, institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference (and in each case, not having withdrawn the same), or having required any action to be taken or otherwise having done anything, or having enacted, made or proposed any statute, regulation, decision, order or change to published practice (and in each case, not having withdrawn the same) and there not continuing to be outstanding any statute, regulation, decision or order, which, in each case, would or might reasonably be expected to directly or indirectly prevent or prohibit, restrict, restrain, or delay or otherwise interfere with the implementation of, or impose additional conditions or obligations with respect to, or otherwise challenge, impede, interfere or require amendment of the Offer in any material respect or the acquisition or proposed acquisition of any shares or other securities in, or control or management of, the Group by BGH.

(f) there being no material provision of any material arrangement, agreement, lease, licence, franchise, permit or other instrument to which any member of the Group is a party or by or to which any such member or any of its assets is or may be bound, entitled or subject or any event or circumstance which, as a consequence of the Offer or the acquisition or the proposed acquisition by BGH of any shares or other securities (or the equivalent) in the Bank or because of a change in the control or management of any member of the Group or otherwise, could or might reasonably be expected to result in (to an extent that is material in the context of the Group take as a whole) the value of any member of the Group or its financial or trading position or prospects being prejudiced or materially adversely affected, and no event having occurred which, under any provision of any arrangement, agreement, licence, permit, franchise, lease or other instrument to which any member of the Group is a party or by or to which any such member or any of its assets are bound, entitled or subject, would or might result in any such circumstances;

(g) in BGH's opinion, no other event or development shall have occurred that would materially or adversely affect the business, operations, properties, condition (financial or otherwise), assets, liabilities or prospects of BGH, or its subsidiaries or affiliates, or any member of the Group (including, without limitation, the commencement of war, armed hostilities, terrorist action or any other national calamity) that would or might prohibit, prevent, restrict or delay consummation of the Offer or have a material adverse effect on the Group taken as a whole, shall have occurred.

2. Waiver and amendment of the Offer

2.1 The Conditions are for BGH's sole benefit and may be asserted by BGH regardless of the circumstances giving rise to any such Condition (including any action or inaction of BGH), and any such Condition may be waived (to the extent that any such Condition is capable of being waived) by BGH, in whole or in part, at any time and from time to time in its reasonable judgment. BGH's failure at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right; the waiver of any such right with respect to any particular facts or circumstances shall not be deemed a waiver with respect to any other facts or circumstances; and each such right shall be deemed an on-going right which may be asserted at any time. Any determination by BGH concerning the events described in this Part A of Part XVIII shall, subject to Applicable Laws, be final and binding.

2.2 BGH expressly reserves the right, at its sole discretion, and at any time prior to the Expiration Time to extend the Offer Period to any time before the Long Stop Date by giving written notice of any such extension to the Georgian Exchange Agent and the Exchange Agent and by making a public announcement of such changes to the Offer. See further Paragraphs 1.1, 1.2 and 2 of Part B of this Part XVIII. Any extension or other amendment to the Offer will also be communicated to Bank Shareholders via registered mail, publication of the changes in a newspaper of appropriate circulation in Georgia and through being displayed at the Georgian Stock Exchange and the registered office of BGH (or as otherwise required from time to time under Georgian law).

2.3 In addition to its rights under Paragraph 2.2 above, BGH reserves the right, at its sole discretion, and at any time prior to Admission, to terminate the Offer and not accept for exchange any Bank Shares for any reason, including if any of the Conditions referred to above have not been satisfied or upon the occurrence and during the continuance of any of the adverse events specified in Paragraph 1 (e) — (g) above, in each case by giving written notice to the Georgian Exchange Agent and Exchange Agent, by making a public announcement of such termination see (Paragraph 2 of Part B of this Part XVIII for further information), and communicating such termination to Bank Shareholders in accordance with Georgian law as set out in Paragraph 2.2 above.

3. Certain terms of the Offer

3.1 If the Offer lapses or is withdrawn, it will cease to be capable of further acceptance and Participating Holders and BGH will cease to be bound by acceptances or instructions to accept, as the case may be, submitted before the time the Offer lapses or is withdrawn.

3.2 The Offer will lapse unless the above Conditions have been fulfilled or waived (if capable of a waiver), or, where appropriate, have been determined by BGH to be or remain satisfied, by the Long Stop Date.

Part B

Further Terms of the Offer

1. Acceptance period

1.1 The Offer will remain open for acceptance until the Expiration Time being 5.00 p.m. (London time) / 9.00 p.m. (Tbilisi time) / 12.00 noon (New York time) on the day on which the Offer Period expires. BGH reserves the right (but will not be obliged) to extend the Offer Period and, in such event, will give written notice of such extension to the Georgian Exchange Agent and the Exchange Agent and make a public announcement of such extension in the manner described in Paragraph 2 of this Part B of Part XVIII.

1.2 The right of BGH to extend the Offer Period in such manner may be exercised from time to time so that the Offer Period may be extended to any time before the Long Stop Date. There can be no assurance, however, that BGH will extend the Offer Period and, if no such extension is made and the Conditions (save for the Admission Condition) have not been met by the Expiration Time, the Offer will lapse and no Bank Shares will be acquired pursuant to the Offer.

1.3 The Offer, whether revised or not, will not be capable of being declared wholly unconditional after the Long Stop Date.

1.4 For the purposes of determining, at any particular time, whether the Acceptance Condition is satisfied, BGH is not bound to take into account any Existing Securities which have been issued or unconditionally allotted or which arise as the result of the exercise of subscription or conversion rights in each case during the Offer Period before the determination takes place unless the Bank or its agent has given written notice containing relevant details of the allotment, issue, subscription or conversion before that time to BGH or the Georgian Exchange Agent or the Exchange Agent on behalf of BGH at one of the addresses specified below (see Paragraph 5 for more details). Notification by e-mail or facsimile or other electronic transmission or copies will not be sufficient to constitute written notice for this purpose.

1.5 If the Offer lapses for any reason:

(a) it will not be capable of further acceptance;

(b) Bank Shareholders who have accepted the Offer and GDR Holders who have given an instruction to accept the Offer will cease to be bound by:

(i) in the case of Bank Shareholders, Shareholder Acceptances received; and

(ii) in the case of GDR Holders, instructions to accept the Offer received;

(c) in the case of Bank Shares, the relevant Bank Shares will be held by the Georgian Exchange Agent for the Bank Shareholders until further instructions are received;

(d) in the case of Regulation S GDRs, the Regulation S GDRs will be released for trading in accordance with Euroclear's or Clearstream's normal procedures; and

(e) in the case of Rule 144A GDRs, the Rule 144A GDRs will be returned to the account from which they were delivered to the Exchange Agent.

2. Announcements

2.1 Without prejudice to Paragraph 3.2 of this Part B of Part XVIII, by 8.00 a.m. (London time) / 12.00 p.m. (Tbilisi time) / 3.00 a.m. (New York time) within four Business Days following the Expiration Time, BGH will make an appropriate announcement through a Regulatory Information Service. Such announcement will state the total number of Bank Shares which BGH may count towards the satisfaction of the Acceptance Condition and the percentage of Bank Shares represented by this figure.

2.2 Any decision to extend the time and/or date by which the Conditions have to be fulfilled will be announced through a Regulatory Information Service. The announcement will state the next Expiration Time.

2.3 In computing the number of Existing Securities represented by acceptances for the announcement, BGH may include or exclude, for announcement purposes, Shareholder Acceptances not in all respects in order and/or not accompanied by a Form of Acceptance and/or not accompanied by a Certification Form or which are subject to verification.

2.4 In this Part XVIII, references to the making of an announcement or the giving of notice by or on behalf of BGH include the release of an announcement by BGH's public relations consultants or by ING, in each case on behalf of BGH, to the press and the delivery by hand or telephone or facsimile transmission or other electronic transmission of an announcement through a Regulatory Information Service. An announcement made otherwise than through a Regulatory Information Service will be notified simultaneously through a Regulatory Information Service. Any extension or other amendment to the Offer will also be communicated to Bank Shareholders via registered mail, publication of the changes in a newspaper of appropriate circulation in Georgia and through being displayed at the Georgia Stock Exchange and the registered office of BGH (or as otherwise required from time to time under Georgian Law).

3. Rights of withdrawal

3.1 **Subject to Applicable Laws, except as provided by this Paragraph 3, instructions to accept, acceptances of and elections under the Offer will be irrevocable.**

3.2 In this Paragraph 3, **"written notice"** (including any letter of appointment, direction or authority) means notice in writing signed by the relevant Existing Holder (or its agent(s) duly appointed in writing and evidence of whose appointment satisfactory to BGH is produced with the notice). A notice which is postmarked in, or otherwise appears to BGH or its agents to have been sent from, a Restricted Jurisdiction may not be treated as valid.

3.3 **Up to the Expiration Time, any Bank Shareholder may withdraw its acceptance of the Offer by written notice signed by the accepting Bank Shareholder (or its agent duly appointed in writing and evidence of whose appointment, in a form reasonably satisfactory to BGH, is produced with the notice) given by facsimile, by post or by hand (during normal business hours only) to the Georgian Exchange Agent at the details set out below (see Paragraph 5.2(d) of this Part B of Part XVIII for further details).**

3.4 **Following publication of a supplementary prospectus (as defined by FSMA) by BGH in respect of the BGH Offer Shares, Participating Holders who accepted the Offer prior to publication of the supplementary prospectus have a right of withdrawal which arises pursuant to section 87Q of FSMA. Bank Shareholders who wish to withdraw their acceptance of the Offer must do so by written notice given by facsimile, by post or by hand (during normal business hours only) to the Georgian Exchange Agent at the details set out below (see Paragraph 5.2(d) of this Part B of Part XVIII for further details) and a GDR Holder may withdraw its instructions to accept the Offer in accordance with the policies and procedures of the relevant Clearing System, in each case during the period of two Business Days beginning with the first Business Day after the date on which the supplementary prospectus was published.**

3.5 Existing Securities in respect of which acceptances have been validly withdrawn in accordance with Paragraphs 3.3 or 3.4 may subsequently be re-assented to the Offer by following one of the procedures described in Paragraph 5 of this Part B of Part XVIII while the Offer remains open for acceptance.

3.6 All questions as to the validity (including time of receipt) of any notice of withdrawal will be determined by BGH, whose determination will be final and binding. Subject to Applicable Laws, none of BGH, the Bank, ING, the Georgian Exchange Agent nor the Exchange Agent nor any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal or incur any liability for failure to give such notification or for any determination under this Paragraph 3 of Part B of Part XVIII.

4. Revised Offer

4.1 Although no such revision is contemplated, if the Offer is revised, the benefit of the revised Offer will, subject to Paragraph 5 of this Part B of Part XVIII, be made available to any Existing Holder who has accepted, or submitted an instruction to accept, the Offer and who has not validly withdrawn such acceptance or instruction to accept (a **"Previous Acceptor"**) if any such revised Offer(s) represents, on the date on which it is announced, an improvement (or no diminution) in the terms previously offered or in the overall value retained and/or received by an Existing Holder. The acceptance, or the instruction to accept, by or on behalf of an Existing Holder will, subject to Paragraph 5 of this Part B of Part XVIII, be deemed to be an acceptance of, or an instruction to accept, as the case may be, the revised Offer and will constitute the separate appointment of each of the Georgian Exchange Agent, the Exchange Agent or BGH as its attorney and/or agent with authority:

(a) to accept the revised Offer on behalf of such Previous Acceptor;

(b) if the revised Offer includes alternative form(s) of consideration, to make elections for and/or accept such alternative form(s) of consideration on his or her behalf in the proportions the attorney and/or agent in its absolute discretion thinks fit; and

(c) to execute on its behalf and in its name all such further documents (if any) and to do all things (if any) as may be required to give effect to such acceptances and/or elections.

4.2 In making any election and/or acceptance, the attorney and/or agent will take into account the nature of any previous acceptance(s) or election(s) made by or on behalf of the Previous Acceptor and other facts or matters it may reasonably consider relevant.

4.3 In circumstances where the Offer is revised in accordance with the terms of this Paragraph 4 of Part B of Part XVIII, BGH will make any new or revised information concerning the Offer or the Tender Offer Documents (to the extent it decides necessary or as required by Applicable Laws) available on the websites: www.bogh.co.uk and www.bankofgeorgia.ge, as well as communicating such information to Bank Shareholders in accordance with Paragraph 2.4 above (to the extent it decides necessary or as required by Applicable Laws).

5. Acceptance Procedures

FAILURE OF AN EXISTING HOLDER TO COMPLY WITH THE APPLICABLE PROCEDURES DESCRIBED BELOW MAY RESULT IN AN INVALID ACCEPTANCE OF THE OFFER WITH RESPECT TO THE RELEVANT EXISTING SECURITIES.

5.1 Acceptance and Delivery

(a) Existing Holders wishing to accept the Offer must follow the applicable procedures outlined in this Part B of Part XVIII, the Tender Offer Proposal, the Form of Acceptance (if applicable) and the Certification Form. The specific procedures for accepting the Offer vary depending on whether the Existing Holder is accepting the Offer with respect to Bank Shares (and in the case of Bank Shares, whether such Bank Shares are held in an account of the Georgian Registrar or through a nominee holding of the Georgian Exchange Agent or another Georgian broker) or with respect to GDRs (and in the case of GDRs, whether such GDRs are held through DTC, Euroclear or Clearstream).

5.2 Acceptance by Bank Shareholders

(a) Bank Shareholders who wish to accept the Offer with respect to all or any portion of their Bank Shares must follow the procedures, including arranging for the transfer of the relevant Bank Shares to the nominee holding of the Georgian Exchange Agent (to the extent not already so held), set forth in this Part B of Part XVIII, the Tender Offer Proposal, and in the Form of Acceptance and the Certification Form that both accompany this Prospectus and the Tender Offer Proposal.

(b) A Form of Acceptance and Certification Form must be duly completed and executed by or on behalf of the relevant Bank Shareholder accepting the Offer. For these purposes an eligible Bank Shareholder means a holder of Bank Shares that is considered to be the "registered holder" (*registrirebuli mphlobeli*) under Georgian Law with respect to the relevant Bank Shares held either in a personal account or nominal holdings account with the Georgian Registrar.

(c) Bank Shareholders holding Bank Shares registered in the name of a broker, dealer, commercial bank, trust company or other nominee may be charged a fee by the brokerage firm or similar nominee for processing the acceptance(s) on their behalf.

(d) A duly completed and executed original hard copy of the Form of Acceptance and Certification Form must be delivered by hand, mail, courier or facsimile to the Georgian Exchange Agent as soon as possible and, in any event, prior to the Expiration Time, together with all documents required to be attached thereto, as follows:

If by Hand, Mail or Overnight Courier:

7 Chavchavadze Ave. 0179 Tbilisi, Georgia

If by Facsimile:

+995 322 23 58 04, marked for the attention of Ekaterine Gretadze

or in place of delivering a Form of Acceptance, the acceptance may be made orally to the designated representative of the Georgian Exchange Agent, provided that the Georgian Exchange Agent confirms the receipt of acceptance to the relevant Bank Shareholder in writing.

(e) The Form of Acceptance and Certification Form and documents required to be attached thereto must be delivered during the normal business hours of the Georgian Exchange Agent on a Business Day.

(f) In addition to providing a Shareholder Acceptance and Certification Form pursuant to Paragraphs (b), (d) and (e) above, in order for an acceptance of the Offer with respect to Bank Shares to be treated as valid:

(i) Registered owners who hold Bank Shares directly through their personal account with the Georgian Registrar must as soon as possible and, in any event, prior to the Expiration Time:

(A) open a Brokerage Account with the Georgian Exchange Agent by providing the necessary identification documents and completing the requisite forms;

(B) execute or procure the execution by an authorised attorney of a transfer order in the presence of the Georgian Registrar to transfer the relevant number of Bank Shares to which the Shareholder Acceptance relates into a nominee holding of the Georgian Exchange Agent prior to the Expiration Time (re-registration of title with respect to the Bank Shares may take several days and accordingly the instructions to transfer the Bank Shares to the nominee holding of the Georgian Exchange Agent should be made sufficiently in advance of the Expiration Time, so that the transfer is effective prior to the Expiration Time); and

(C) execute an Instruction.

(ii) Registered owners holding Bank Shares through a nominee holding of the Georgian Exchange Agent and having accounts with Georgian Exchange Agent must as soon as possible and, in any event, prior to the Expiration Time execute an Instruction, as well as instruct the Georgian Exchange Agent as to how to complete and execute a Form of Acceptance and a Certification Form.

(iii) Registered owners holding Bank Shares through a nominee holding of a Georgian broker(s) (other than the Georgian Exchange Agent) must as soon as possible and, in any event, prior to the Expiration Time:

(A) either:

(aa) instruct the broker(s) to open a Brokerage Account with the Georgian Exchange Agent and transfer the relevant Bank Shares to the nominee holding of the Georgian Exchange Agent; or

(bb) where the broker(s) already has the Brokerage Account with the Georgian Exchange Agent, instruct the broker(s) to transfer the relevant Bank Shares to the nominee holding of the Georgian Exchange Agent;

and instruct the broker(s) to execute an Instruction, as well as instruct the broker(s) as to how to complete and execute a Form of Acceptance and a Certification Form and return such Form of Acceptance and Certification Form to the Georgian Exchange Agent; or

(B) withdraw such Bank Shares from the nominee holding of that Georgian broker to its securities account with the Georgian Registrar and then follow the procedures and requirements set forth in Paragraph (f)(i) above.

Georgian brokers (other than the Georgian Exchange Agent) may set their own cut-off dates and times for customers to give instructions to accept the Offer. Bank Shareholders who hold Bank Shares through any Georgian broker(s) (other than the Georgian Exchange Agent) must contact that firm or person to determine the cut-off date and time applicable to them.

(g) Any purported acceptance of the Offer other than in accordance with the procedures set forth in the Tender Offer Documents that is incomplete or incorrect, or to which the required documents are not attached may, at BGH's sole discretion, be treated as invalid and may, in BGH's sole discretion, be returned to the relevant Bank Shareholder.

(h) By providing the Shareholder Acceptance with respect to all or any portion of Bank Shares held by it, a Bank Shareholder will be deemed to represent, warrant, acknowledge, undertake and agree with the Exchange Agent, BGH and the Bank on behalf of itself (or if it is accepting the Offer on behalf of any other person(s) on behalf of any such person(s)) as follows:

(i) The execution of a Certification Form shall constitute:

(A) an acceptance of the Offer in respect of the number of Bank Shares specified in the Shareholder Acceptance; and

(B) an undertaking to execute any further documents, take any further action and give any further assurances which may be required to enable BGH to obtain the full benefit of the Shareholder Acceptance and the Certification Form and/or to perfect any of the authorities expressed to be given thereunder and otherwise in connection with such Bank Shareholder's acceptance of the Offer,

in each case on and subject to the terms and Conditions set out or referred to in the Tender Offer Documents and that each such acceptance, election and undertaking shall, subject only to Applicable Laws, be irrevocable, provided that if (A) the total number of Bank Shares in respect of which the Offer is expressed to be accepted is greater than the number of Bank Shares comprised in the Shareholder Acceptance; or (B) the acceptance is otherwise completed incorrectly, but a Form of Acceptance is signed and/or written confirmation of acceptance is received from the Georgian Exchange Agent, it will be deemed to be an acceptance of the Offer in respect of all Bank Shares comprised in the acceptance.

(ii) The Tender Offer Documents have been made available to it (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it such availability) and it agrees (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it agrees) to all of the terms of the Offer and agrees that the acceptance of the Offer with respect to the Bank Shares pursuant to the procedures described in the Tender Offer Documents will constitute a binding agreement between it (or such other person) and BGH upon the terms and subject to the Conditions, the Form of Acceptance (if any) and the Certification Form. For the purposes of the Offer, it understands (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it understands) that Bank Shares will be deemed to have been accepted by BGH if, as and when, BGH gives oral or written notice thereof to the Georgian Exchange Agent.

(iii) It has (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it has) full power, capacity and authority to accept the Offer and to execute and deliver all documents necessary to accept the Offer and the person(s) giving the Instruction and completing and delivering the Shareholder Acceptance and Certification Form on its behalf has been duly authorised to do so and to receive the BGH Offer Shares.

(iv) It has (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it has) read and relied solely on information contained in the Tender Offer Documents, such information being all that it deems (or, if it is accepting the Offer on behalf of another person, such person deems) necessary to make a decision in respect of accepting the Offer and it has (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it has) satisfied itself concerning all relevant legal, tax, business, financial and other considerations relevant to its (or such other person's) acceptance of the Offer.

(v) It is (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it is) the registered legal owner of the Bank Shares, is irrevocably and unconditionally entitled or instructed (as applicable) to transfer the beneficial ownership of the Bank Shares to which the Shareholder Acceptance relates and such Bank Shares are, subject to Applicable Laws, transferred with full title guarantee, fully paid, free from any (i) restrictions on transfer, (ii) encumbrances, (iii) rights and claims of third parties (including any pledge), (iv) attachments, or (v) court, administrative, arbitration or out-of-court disputes and together with all rights attaching to them on or after the date on which the Offer is declared wholly unconditional, including, without limitation, voting rights and the right to receive and retain in full all dividends and other distributions (if any) declared, paid or made, or any other return of capital (whether by reduction of share capital or share premium account or otherwise) made, on or after that date.

(vi) Subject to any Applicable Laws, all authority conferred or agreed to be conferred shall not be affected by, and shall survive, the death or incapacity of the Bank Shareholder (or, if it is accepting the Offer on behalf of another person, such person), and any obligation of the Bank Shareholder (or such other person) hereunder shall be binding upon the heirs, executors, administrators, trustees in bankruptcy, personal and legal representatives, successors and assigns of the Bank Shareholder (or such other person).

(vii) It understands (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it understands) that, subject to any Applicable Laws, all questions as to the form and validity of all documents (including time of receipt) and the ownership, free of liens, charges, encumbrances and other third party rights and claims of Bank Shares accepted under the Offer will be determined by BGH, in its sole discretion, which determination shall be final and binding.

(viii) It recognises (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it recognises) that BGH may, at its sole discretion, terminate or amend this Offer or may postpone the acceptance or exchange of the tendered Bank Shares or may not be required to accept or exchange any of the Bank Shares to which an Instruction or the Certification Form relates, and it agrees and undertakes (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it agrees and undertakes) to do all acts and things required to accept any Bank Shares returned to it.

(ix) It waives (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it waives) any and all rights in respect of the Bank Shares other than the right to receive the BGH Offer Shares to which it (or such other person) may become entitled under the Offer.

(x) It has (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it has) observed the laws of all relevant jurisdictions, obtained all requisite governmental, exchange control or other required consents, including corporate approvals, approvals of any regulatory body, if applicable, and any third parties, complied with all requisite formalities in connection with any acceptance, in any relevant jurisdiction and that it has not (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it has not) taken or omitted to take any action in breach of the terms and Conditions of the Offer or which will or may result in BGH or any other person acting in breach of the legal or regulatory requirements of any such jurisdiction in connection with the Offer.

(xi) In relation to Bank Shares, the Shareholder Acceptance authorises (subject to the Offer being declared wholly unconditional) any directors of, or any person authorised by BGH as its agent to:

(A) undertake all such acts as may be required to transfer and register such Bank Shares in the name of BGH or its nominee;

(B) to vest in BGH (or its nominee(s)) the full legal and beneficial ownership of Bank Shares comprised in the Shareholder Acceptance; and

(C) undertake all such acts as may be required to transfer and register the corresponding number of BGH Offer Shares in the name of the Bank Shareholder or its nominee in accordance with the Shareholder Acceptance.

(xii) The terms of the Offer, including the Conditions are deemed to be incorporated in, and form part of, the Shareholder Acceptance, which it will (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it will) read and construe accordingly.

(xiii) It will (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it will) ratify each and every act or thing which may be done or effected by BGH or its agents or any of their respective directors or agents, as the case may be, in the exercise of any of the powers and/or authorities under this Paragraph 5.2 of this Part B of Part XVIII.

(xiv) If any provision of this Part B of Part XVIII will be unenforceable or invalid or will not operate so as to afford BGH or the Georgian Exchange Agent or any of their respective directors, agents or persons authorised by them, the benefit of the authority expressed to be given therein, it will (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it will), with all practicable speed, do all such acts and things and execute all such documents that may be required or desirable to enable BGH and/or the Georgian Exchange Agent and any of their respective directors, agents or persons authorised by them to secure the full benefit of this Part B of Part XVIII.

(xv) The execution of the Certification Form constitutes the submission of the Bank Shareholder (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that such person so submits) to the exclusive jurisdiction of the courts of England and Wales to settle any dispute arising out of or connected with the Offer, except in relation to those matters over which the courts of Georgia have exclusive jurisdiction.

(xvi) The Form of Acceptance will be deemed to be delivered on the date of its delivery. For the avoidance of doubt, oral acceptance will be taken as being given on the date when the Georgian Exchange Agent confirms such acceptance to the accepting Bank Shareholder in writing. In case the Form of Acceptance (if any) is sent before the Expiration Time, but is received by the Georgian Exchange Agent after the Expiration Time, the acceptance shall be considered ineffective only if the Georgian Exchange Agent immediately notifies the relevant Bank Shareholder of the late receipt.

(i) The Certification Form requires a Bank Shareholder who holds Bank Shares to certify that:

(i) If it is (or, if it is accepting the Offer on behalf of another person and if such person has confirmed to it that such person is) a US Holder:

(A) it is (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it is) a QIB or an Institutional Accredited Investor and, if it is (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it is) acquiring BGH Offer Shares as a fiduciary or agent for one or more investor accounts, each owner of such account is a QIB or an Institutional Accredited Investor;

(B) it is (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it is) aware, and each prospective beneficial owner of BGH Offer Shares has been advised, that the BGH Offer Shares have not been, and will not be, registered under the Securities Act, and that the offer and sale to it (or such person or other beneficial owner) is being made in a transaction exempt from registration under the Securities Act;

(C) it is (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it is) tendering Bank Shares in consideration for BGH Offer Shares for its (or such person's) own account or for the account of a QIB or an Institutional Accredited Investor as to which it (or such other person) has full investment discretion (and it has (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it has) full power and authority to make the acknowledgements, representations and agreements herein on behalf of each owner of such account), in each case, for investment purposes and not with a view to, or for offer or sale in connection with, any distribution (within the meaning of the United States securities laws) thereof;

(D) it is aware (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it is aware) that the BGH Offer Shares will be "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act;

(E) it understands and agrees (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it understands and agrees) that, although offers and sales of the BGH Offer Shares are being made to QIBs and Institutional Accredited Investors, none of such offers or sales are being made under Rule 144A, and that such BGH Offer Shares may not be reoffered, resold, pledged or otherwise transferred, except (i) outside the United States in accordance with Rule 903 or Rule 904 of Regulation S or (ii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or any other exemption from the registration requirements of the Securities Act, subject to delivery to BGH of an opinion of counsel (and of such other evidence that BGH may reasonably require) that such transfer or sale is in compliance with the Securities Act, and in each of (i) and (ii), in accordance with any applicable securities laws of any state of the United States or any other jurisdiction;

(F) it is (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it is) an institution and it (or any other such person), and each other QIB or Institutional Accredited Investor, if any, for whose account it (or any other such person) is acquiring the BGH Offer Shares (i) has such knowledge and experience in financial and business matters that it is capable of evaluating the risks and merits of an investment in the BGH Offer Shares and (ii) has the financial ability to bear the economic risk of an investment in the BGH Offer Shares and adequate means for providing for current needs and possible contingencies; and

(G) it has (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it has) had access to the financial and other information regarding BGH that it (or any other such person) has requested in connection with its investment decision to subscribe for or acquire BGH Offer Shares and it has (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it has) made its own assessment concerning the relevant tax, legal and other economic considerations relevant to its (or any other such person's) investment in the BGH Offer Shares.

(ii) If it is not (or, if it is accepting the Offer on behalf of another person and if such person has confirmed to it that such person is not) a US Holder:

(A) it has not (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it has not) received or sent copies or originals of this document or any related documents in, into or from the United States;

(B) it has not (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it has not) otherwise utilised in connection with the Offer, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, e-mail, telex, telephone, internet or other forms of electronic communication) of interstate or foreign commerce of, or any facilities of a national securities exchange of, the United States;

(C) it is not (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it is not) acting on a non-discretionary basis (as agent, nominee, custodian, trustee or otherwise) for or on behalf of a principal, unless such principal has given any instructions with respect to the Offer from outside the United States;

(D) it is (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it is) accepting the Offer from outside the United States and was outside the United States at the time of Shareholder Acceptance; and

(E) it is not (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it is not) accepting the Offer with a view to the offer, sale, resale or delivery, directly or indirectly, of any BGH Offer Shares in or into the United States and it will not (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it will not) hold or acquire any BGH Offer Shares for any person who it has reason to believe is (or, if it is accepting the Offer on behalf of another person, such person has reason to believe is) purchasing for the purpose of such offer, sale, resale or delivery.

(iii) In any event:

(A) it has not (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it has not) received or sent copies or originals of this document or any related documents in, into or from a Restricted Jurisdiction;

(B) it has not (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it has not) otherwise utilised in connection with the Offer, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, e-mail, telex, telephone, internet or other forms of electronic communication) of interstate or foreign commerce of, or any facilities of a national securities exchange of, any Restricted Jurisdiction;

(C) it is not (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it is not) acting on a non-discretionary basis (as agent, nominee, custodian, trustee or otherwise) for or on behalf of a principal, unless such principal has given any instructions with respect to the Offer from outside a Restricted Jurisdiction;

(D) if such Bank Shareholder is (or, if it is accepting the Offer on behalf of another person, such person is) a citizen, resident or national of a jurisdiction outside the United Kingdom or Georgia, it has (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it has) observed the laws and regulatory requirements of the relevant jurisdiction in connection with the Offer, obtained all requisite governmental, exchange control or other consents, complied with all other necessary formalities and paid any issue, transfer or other taxes or duties or other requisite payments due in any such jurisdiction in connection with such acceptance and that it has not (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it has not) taken or omitted to take any action that will or may result in BGH, the Georgian Exchange Agent or any other person acting in breach of any legal or regulatory requirements of any such jurisdiction in connection with the Offer or the acceptance of the Offer;

(E) it is (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it is) accepting the Offer from outside a Restricted Jurisdiction and was outside those jurisdictions at the time of the Shareholder Acceptance; and

(F) it is not (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it is not) accepting the Offer with a view to the offer, sale, resale or delivery, directly or indirectly, of any BGH Offer Shares in or into any Restricted Jurisdiction and will not (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it will not) hold or acquire any BGH Offer Shares for any person who it has reason to believe is (or, if it is accepting the Offer on behalf of another person, such person has reason to believe is) purchasing for the purpose of such offer, sale, resale or delivery.

(iv) If it (or, if it is accepting the Offer on behalf of another person, such person) is a corporation or a legal entity, it is (or, if it is accepting the Offer on behalf of another person, such person has confirmed to it that it is) duly incorporated and existing pursuant to the legislation of the jurisdiction of its incorporation, and the acceptance of the Offer and the completion and delivery of the Certification Form do not and will not violate any provisions of its constitutional documents, conflict with any agreements to which it (or such other person) is a party, or violate or be contrary to any law (regulatory act) or non-normative act, resolution, order, decision or other act of any state authority, decision, order, writ or other act of a court of any jurisdiction, court of arbitration or arbitration panel applicable to it (or such other person, as the case may be).

(j) In order to accept the Offer a Bank Shareholder (or, if it is accepting the Offer on behalf of another person, such person) must make the certifications as provided in the Certification Form.

5.3 Acceptance by Regulation S GDR Holders

(a) GDR Holders who wish to instruct the Exchange Agent to accept the Offer with respect to all or any portion of Bank Shares underlying their Regulation S GDRs must follow the procedures set forth in this Paragraph 5.3 and must cause an Electronic Instruction to be transmitted to the relevant Clearing System to be received by such Clearing System prior to the cut-off time set by such Clearing System for acceptance of the Offer.

(b) **Each of Euroclear and Clearstream will establish its own cut-off date and time for the receipt of instructions by Regulation S GDR Holders wishing to participate in the Offer, which will be earlier than the GDR Expiration Time. Further, Euroclear and Clearstream participants may set their own earlier cut-off dates and times for customers to give instructions to accept the Offer. GDR Holders who hold Regulation S GDRs through a broker, dealer, commercial bank, trust company or other nominee or person must contact that firm or person to determine the**

cut-off date and time applicable to them. GDR Holders holding Regulation S GDRs through a broker, dealer, commercial bank, trust company or other nominee or person may be charged a fee by such person for processing the instruction to accept the Offer on their behalf.

(c) The transmission of an Electronic Instruction to accept the Offer through Euroclear or Clearstream in accordance with this Paragraph 5.3 will (subject to satisfying the requirements set out in this Paragraph 5.3 of Part B of Part XVIII) constitute an instruction to accept the Offer in respect of the Bank Shares underlying the Regulation S GDRs that are the subject of such transmission.

(d) By giving an Electronic Instruction to accept the Offer with respect to all or any portion of their Regulation S GDRs, a Regulation S GDR Holder will be deemed to represent, warrant, acknowledge, undertake and agree with the Exchange Agent, BGH and the Bank on behalf of itself (or, if it is instructing the acceptance of the Offer on behalf of another person(s), on behalf of any such person(s)) as follows:

(i) It irrevocably constitutes and appoints (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it irrevocably constitutes and appoints) the Exchange Agent as its true and lawful agent and attorney-in-fact (with full knowledge that the Exchange Agent also acts as the agent of BGH) with respect to such Regulation S GDRs, with full powers of substitution and revocation (such power of attorney being deemed to be an irrevocable power coupled with an interest):

(A) subject to the Offer being declared wholly unconditional, to transfer to BGH (or to such other person or persons as BGH or its agents may direct), or procure the transfer to BGH (or to such other person or persons as BGH or its agents may direct) of, all or any of the Bank Shares underlying the Regulation S GDRs which are the subject of an Electronic Instruction; and

(B) if the Offer lapses or is withdrawn, to give instructions to Clearstream and Euroclear (as applicable) immediately after the Offer lapses to unblock all Regulation S GDRs held for the purposes of the Offer in the participant account of such GDR Holder.

(ii) The Tender Offer Documents have been made available to it (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it such availability) and it agrees (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it agrees) to all of the terms of the Offer and agrees that the acceptance of the Offer with respect to the Bank Shares underlying the Regulation S GDRs pursuant to the procedures described in the Tender Offer Documents will constitute a binding agreement between it (or such other person) and BGH upon the terms and subject to the Conditions and the Certification Form. For the purposes of the Offer, it understands (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it understands) that Bank Shares underlying the Regulation S GDRs will be deemed to have been accepted by BGH if, as and when, BGH gives oral or written notice thereof to the Georgian Exchange Agent.

(iii) It has (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has) full power, capacity and authority to accept the Offer and to execute and deliver all documents necessary to accept the Offer and the person(s) (if any) giving the Electronic Instruction on its behalf has been duly authorised to do so and to receive the BGH Offer Shares.

(iv) It has (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has) read and relied solely on information contained in the Tender Offer Documents, such information being all that it deems (or, if it is instructing the acceptance of the Offer on behalf of another person, such person deems) necessary to make a decision in respect of accepting the Offer and it has (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has) satisfied itself concerning all relevant legal, tax, business, financial and other considerations relevant to its (or such other person's) instruction to accept the Offer.

(v) It is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) irrevocably and unconditionally entitled to sell and transfer the beneficial ownership of the Regulation S GDRs comprised or deemed to be comprised in the Electronic Instruction and that such Regulation S GDRs may be sold with full title guarantee, fully paid and free from all liens, charges, equities, encumbrances, rights of pre-emption and other interests of any nature whatsoever and together with all rights attaching to them on or after the date on which the Offer is declared wholly unconditional.

(vi) All authority conferred or agreed to be conferred shall not be affected by, and shall survive, the death or incapacity of the Regulation S GDR Holder, and any obligation of the Regulation S GDR Holder (or such other person) hereunder shall be binding upon the heirs, executors, administrators, trustees in bankruptcy, personal and legal representatives, successors and assigns of the Regulation S GDR Holder (or such other person).

(vii) It understands (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it understands) that all questions as to the form and validity of all documents (including time of receipt) and the ownership, free of liens, charges, encumbrances and other third party rights and claims of Regulation S GDRs and of Bank Shares underlying such Regulation S GDRs accepted under the Offer will be determined by BGH, in its sole discretion, which determination shall be final and binding.

(viii) It recognises (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it recognises) that BGH may, at its sole discretion, terminate or amend this Offer or may postpone the acceptance or exchange of the tendered Bank Shares underlying the Regulation S GDRs included in the Offer or may not be required to accept or exchange any of the Bank Shares underlying the Regulation S GDRs to which the Electronic Instruction relates.

(ix) It waives (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it waives) any and all rights in respect of the Regulation S GDRs other than the right to receive the BGH Offer Shares to which it may become entitled under the Offer.

(x) It has (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has) observed the laws of all relevant jurisdictions, obtained all requisite governmental, exchange control or other required consents, including corporate approvals, approvals of any regulatory body, if applicable, and any third parties, complied with all requisite formalities in connection with any acceptance, in any relevant jurisdiction and that it has not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has not) taken or omitted to take any action in breach of the terms and Conditions of the Offer or which will or may result in BGH or any other person acting in breach of the legal or regulatory requirements of any such jurisdiction in connection with the Offer.

(xi) It will (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it will) do all such acts and things as shall, in the opinion of BGH, be necessary or expedient to vest in BGH or its nominee(s) the Bank Shares underlying the Regulation S GDRs comprised or deemed to be comprised in the Electronic Instruction and to enable the Exchange Agent to perform its functions as Exchange Agent for the purposes of the Offer.

(xii) It will (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it will) ratify each and every act or thing which may be done or effected by BGH, the Exchange Agent, the Depositary or any of their respective directors or agents, as the case may be, in the exercise of any of the powers and/or authorities under this Paragraph 5.3 of this Part B of Part XVIII.

(xiii) If any provision of this Part B of Part XVIII shall be unenforceable or invalid or shall not operate so as to afford BGH or the Exchange Agent or any of their respective directors, agents or persons authorised by them, the benefit of the authorities and powers of attorney expressed to be given therein it will, with all practicable speed, do all such acts and things and execute all such documents that may be required or desirable to enable BGH, the Exchange Agent and/or the Depositary and any of their respective directors, agents or persons authorised by them to secure the full benefit of this Part B of Part XVIII.

(xiv) The making of an Electronic Instruction constitutes the submission of the GDR Holder (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that such person so submits) to the exclusive jurisdiction of the courts of England and Wales to settle any dispute arising out of or connected with the Offer, except in relation to those matters over which the courts of Georgia have exclusive jurisdiction.

(e) **GDR Holders who hold Regulation S GDRs through Euroclear and Clearstream must print out, complete, execute and retain a Certification Form, but do not need to send it to the Exchange Agent or BGH in order to validly instruct the Exchange Agent to accept the Offer (unless expressly requested to do so by the relevant Clearing System).**

(f) The Certification Form requires a GDR Holder who holds Regulation S GDRs to certify that:

(i) If it is (or, if it is instructing the acceptance of the Offer on behalf of another person and if such person has confirmed to it that such person is) a US Holder:

(A) it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) a QIB or an Institutional Accredited Investor and, if it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) acquiring BGH Offer Shares as a fiduciary or agent for one or more investor accounts, each owner of such account is a QIB or an Institutional Accredited Investor;

(B) it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) aware, and each prospective beneficial owner of BGH Offer Shares has been advised, that the BGH Offer Shares have not been, and will not be, registered under the Securities Act, and that the offer and sale to it (or such person or other beneficial owner) is being made in a transaction exempt from registration under the Securities Act;

(C) it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) tendering GDRs in consideration for BGH Offer Shares for its (or such person's) own account or for the account of a QIB or an Institutional Accredited Investor as to which it (or such other person) has full investment discretion (and it has (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has) full power and authority to make the acknowledgements, representations and agreements herein on behalf of each owner of such account), in each case, for investment purposes and not with a view to, or for offer or sale in connection with, any distribution (within the meaning of the United States securities laws) thereof;

(D) it is aware (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is aware) that the BGH Offer Shares will be "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act;

(E) it understands and agrees (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it understands and agrees) that, although offers and sales of the BGH Offer Shares are being made to QIBs and Institutional Accredited Investors, none of such offers or sales are being made under Rule 144A, and that such BGH Offer Shares may not be reoffered, resold, pledged or otherwise transferred, except (i) outside the United States in accordance with Rule 903 or Rule 904 of Regulation S or (ii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or any other exemption from the registration requirements of the Securities Act, subject to delivery to BGH of an opinion of counsel (and of such other evidence that BGH may reasonably require) that such transfer or sale is in compliance with the Securities Act, and in each of (i) and (ii), in accordance with any applicable securities laws of any state of the United States or any other jurisdiction;

(F) it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) an institution and it, and each other QIB or Institutional Accredited Investor, if any, for whose account it (or any other such person) is acquiring the BGH Offer Shares (i) has such knowledge and experience in financial and business matters that it is capable of evaluating the risks and merits of an investment in the BGH Offer Shares and (ii) has the financial ability to bear the economic risk of an investment in the BGH Offer Shares and adequate means for providing for current needs and possible contingencies; and

(G) it has (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has) had access to the financial and other information regarding BGH that it has requested in connection with its investment decision to subscribe for or acquire BGH Offer Shares and it has made its own assessment concerning the relevant tax, legal and other economic considerations relevant to its (or any other such person's) investment in the BGH Offer Shares.

(ii) If it is not (or, if it is instructing the acceptance of the Offer on behalf of another person and if such person has confirmed to it that such person is not) a US Holder:

(A) it has not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has not) received or sent copies or originals of this document or any related documents in, into or from the United States;

(B) it has not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has not) otherwise utilised in connection with the Offer, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, e-mail, telex, telephone, internet or other forms of electronic communication) of interstate or foreign commerce of, or any facilities of a national securities exchange of, the United States;

(C) it is not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is not) acting on a non-discretionary basis (as agent, nominee, custodian, trustee or otherwise) for or on behalf of a principal, unless such principal has given any instructions with respect to the Offer from outside the United States;

(D) it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) giving an instruction to accept the Offer from outside the United States and was outside the United States at the time of the input and delivery of the Electronic Instruction; and

(E) it is not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is not) making an instruction to accept the Offer with a view to the offer, sale, resale or delivery, directly or indirectly, of any BGH Offer Shares in or into the United States and it will not hold or acquire any BGH Offer Shares for any person who it has reason to believe is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has reason to believe is) purchasing for the purpose of such offer, sale, resale or delivery.

(iii) In any event:

(A) it has not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has not) received or sent copies or originals of this document or any related documents in, into or from a Restricted Jurisdiction;

(B) it has not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has not) otherwise utilised in connection with the Offer, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, e-mail, telex, telephone, internet or other forms of electronic communication) of interstate or foreign commerce of, or any facilities of a national securities exchange of, any Restricted Jurisdiction;

(C) it is not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is not) acting on a non-discretionary basis (as agent, nominee, custodian, trustee or otherwise) for or on behalf of a principal, unless such principal has given any instructions with respect to the Offer from outside a Restricted Jurisdiction;

(D) if such GDR Holder is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person is) a citizen, resident or national of a jurisdiction outside the United Kingdom or Georgia, it has (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has) observed the laws and regulatory requirements of the relevant jurisdiction in connection with the Offer, obtained all requisite governmental, exchange control or other consents, complied with all other necessary formalities and paid any issue, transfer or other taxes or duties or other requisite payments due in any such jurisdiction in connection with such acceptance and that it has not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has not) taken or omitted to take any action that will or may result in BGH, the Georgian Exchange Agent or any other person acting in breach of any legal or regulatory requirements of any such jurisdiction in connection with the Offer or the instruction to accept the Offer;

(E) it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) giving an instruction to accept the Offer from outside a Restricted Jurisdiction and was outside those jurisdictions at the time of the input and delivery of the Electronic Instruction; and

(F) it is not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is not) making an instruction to accept the Offer with a view to the offer, sale, resale or delivery, directly or indirectly, of any BGH Offer Shares in or into any Restricted Jurisdiction and will not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it will not) hold or acquire any BGH Offer Shares for any person who it has reason to believe is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has reason to believe is) purchasing for the purpose of such offer, sale, resale or delivery.

(iv) If it (or, if it is instructing the acceptance of the Offer on behalf of another person, such person) is a corporation or a legal entity, it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) duly incorporated and existing pursuant to the legislation of the jurisdiction of its incorporation, and the acceptance of the Offer does not and will not violate any provisions of its constitutional documents, conflict with any agreements to which it (or such other person) is a party, or violate or be contrary to any law (regulatory act) or non-normative act, resolution, order, decision or other act of any state authority, decision, order, writ or other act of a court of any jurisdiction, court of arbitration or arbitration panel applicable to it (or such other person, as the case may be).

(g) A GDR Holder (or, if it is instructing the acceptance of the Offer on behalf of another person, such person) must make the certifications as provided in the Certification Form in order to accept the Offer.

(h) GDR Holders holding Regulation S GDRs through Euroclear or Clearstream who wish to instruct that the Offer be accepted on their behalf with respect to all or any portion of Bank Shares underlying their Regulation S GDRs must transmit an instruction to Euroclear or Clearstream (as applicable) in the form specified by that Clearing System. That message will result in the relevant Regulation S GDRs being blocked in the relevant Clearing System, and the Clearing System will report to the Exchange Agent the amount of Regulation S GDRs as to which instructions have been received. Regulation S GDRs subsequently withdrawn from the Offer prior to the GDR Expiration Time in accordance with Paragraph 3 of this Part B of Part XVIII will be unblocked in the Clearing Systems.

(i) By submitting or delivering an Electronic Instruction through the Clearing Systems, Regulation S GDR Holders will, and will be deemed to, authorise the relevant Clearing System to disclose their identity, holdings and Clearing System account details to the Depositary, the Exchange Agent, BGH, the Bank and their officers, employees and advisors.

(j) **The cancellation fee of US$0.05 per GDR ordinarily payable under the Deposit Agreement by a GDR Holder who surrenders its GDRs and requests delivery to it of the Bank Shares underlying its GDRs or who receives the net proceeds of the sale of those Bank Shares following termination of the Deposit Agreement will not be payable by GDR Holders who exchange their GDRs for BGH Offer Shares pursuant to the Offer as the Bank has agreed to pay the fee on their behalf.**

5.4 Acceptance by Rule 144A GDR Holders

(a) GDR Holders who wish to instruct the Exchange Agent to accept the Offer with respect to all or any portion of Bank Shares underlying their Rule 144A GDRs must transmit their acceptance via an ATOP Instruction through DTC's ATOP as soon as possible and at the very latest by the cut-off date and time set by DTC which will be earlier than the GDR Expiration Time.

(b) **DTC participants may set their own earlier cut-off dates and times for customers to give instructions to accept the Offer. GDR Holders who hold Rule 144A GDRs through a broker, dealer, commercial bank, trust company or other nominee or person must contact that firm or person to determine the cut-off date and time applicable to them.** GDR Holders holding Rule 144A GDRs through a broker, dealer, commercial bank, trust company or other nominee or person may be charged a fee by such person for processing the instruction to accept the Offer on their behalf.

(c) DTC has confirmed that the Offer is eligible for ATOP. Accordingly, a DTC participant whose name appears on a security position listing as the owner of Rule 144A GDRs must electronically transmit their ATOP Instruction to accept the Offer by causing DTC to transfer the Rule 144A GDRs to the Exchange Agent in accordance with DTC's ATOP procedures for such a transfer. DTC will then send an Agent's Message to the Exchange Agent.

(d) The term **"Agent's Message"** means a message transmitted by DTC, received by the Exchange Agent and forming part of a book-entry confirmation, which states that DTC has received an express acknowledgement from the relevant DTC participant that such participant has received and agrees to be bound by the terms and Conditions of the Offer as set out in this Prospectus and that BGH may enforce such agreement against such participant. GDR Holders wishing to accept the Offer should note that such GDR Holders must allow sufficient time for completion of the ATOP procedures during the normal business hours of DTC and in any event on, or prior to, the GDR Expiration Time. An Agent's Message must be transmitted to and received by the Exchange Agent at, or prior to, the GDR Expiration Time.

(e) The transmission of an ATOP Instruction to accept the Offer in accordance with this Paragraph 5.4 will (subject to satisfying the requirements set out in this Paragraph 5.4 of Part B of Part XVIII) constitute an instruction to accept the Offer in respect of the Bank Shares underlying the Rule 144A GDRs that are the subject of such transmission.

(f) GDR Holders who wish to instruct the Exchange Agent to accept the Offer with respect to all or any portion of Bank Shares underlying their Rule 144A GDRs must print out, complete and execute a Certification Form and return it by hand delivery, mail, courier or facsimile to the Exchange Agent to be received before the GDR Expiration Time as follows:

If by Mail:

BNY Mellon Shareowner Services
Attn: Corporate Actions Department
P.O. Box 3301
South Hackensack
NJ 07606-1901

If by Hand or Overnight Courier:

BNY Mellon Shareowner Services
Attn: Corporate Actions Department
27th Floor
480 Washington Boulevard
Jersey City
NJ 07310

If by Facsimile:

1 (201) 680 4626

Facsimile Confirmation : 1 (201) 680 4860

(g) The Certification Form requires a GDR Holder who holds Rule 144A GDRs to certify that:

(i) If it is (or, if it is instructing the acceptance of the Offer on behalf of another person and if such person has confirmed to it that such person is) a US Holder:

(A) it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) a QIB or an Institutional Accredited Investor and, if it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) acquiring BGH Offer Shares as a fiduciary or agent for one or more investor accounts, each owner of such account is a QIB or an Institutional Accredited Investor;

(B) it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) aware, and each prospective beneficial owner of BGH Offer Shares has been advised, that the BGH Offer Shares have not been, and will not be, registered under the Securities Act, and that the offer and sale to it (or such person or other beneficial owner) is being made in a transaction exempt from registration under the Securities Act;

(C) it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) tendering GDRs in consideration for BGH Offer Shares for its (or such person's) own account or for the account of a QIB or an Institutional Accredited Investor as to which it (or such other person) has full investment discretion (and it has (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has) full power and authority to make the acknowledgements, representations and agreements herein on behalf of each owner of such account), in each case, for investment purposes and not with a view to, or for offer or sale in connection with, any distribution (within the meaning of the United States securities laws) thereof;

(D) it is aware (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is aware) that the BGH Offer Shares will be "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act;

(E) it understands and agrees (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it understands and agrees) that, although offers and sales of the BGH Offer Shares are being made to QIBs and Institutional Accredited Investors, none of such offers or sales are being made under Rule 144A, and that such BGH Offer Shares may not be reoffered, resold, pledged or otherwise transferred, except (i) outside the United States in accordance with Rule 903 or Rule 904 of Regulation S or (ii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or any other exemption from the registration requirements of the Securities Act, subject to delivery to BGH of an opinion of counsel (and of such other evidence that BGH may reasonably require) that such transfer or sale is in compliance with the

Securities Act, and in each of (i) and (ii), in accordance with any applicable securities laws of any state of the United States or any other jurisdiction;

(F) it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) an institution and it, and each other QIB or Institutional Accredited Investor, if any, for whose account it (or any other such person) is acquiring the BGH Offer Shares (i) has such knowledge and experience in financial and business matters that it is capable of evaluating the risks and merits of an investment in the BGH Offer Shares and (ii) has the financial ability to bear the economic risk of an investment in the BGH Offer Shares and adequate means for providing for current needs and possible contingencies; and

(G) it has (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has) had access to the financial and other information regarding BGH that it has requested in connection with its investment decision to subscribe for or acquire BGH Offer Shares and it has made its own assessment concerning the relevant tax, legal and other economic considerations relevant to its (or any other such person's) investment in the BGH Offer Shares.

(ii) If it is not (or, if it is instructing the acceptance of the Offer on behalf of another person and if such person has confirmed to it that such person is not) a US Holder:

(A) it has not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has not) received or sent copies or originals of this document or any related documents in, into or from the United States;

(B) it has not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has not) otherwise utilised in connection with the Offer, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, e-mail, telex, telephone, internet or other forms of electronic communication) of interstate or foreign commerce of, or any facilities of a national securities exchange of, the United States;

(C) it is not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is not) acting on a non-discretionary basis (as agent, nominee, custodian, trustee or otherwise) for or on behalf of a principal, unless such principal has given any instructions with respect to the Offer from outside the United States;

(D) it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) giving an instruction to accept the Offer from outside the United States and was outside the United States at the time of the input and delivery of the ATOP Instruction; and

(E) it is not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is not) making an instruction to accept the Offer with a view to the offer, sale, resale or delivery, directly or indirectly, of any BGH Offer Shares in or into the United States and it will not hold or acquire any BGH Offer Shares for any person who it has reason to believe is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has reason to believe is) purchasing for the purpose of such offer, sale, resale or delivery.

(iii) In any event:

(A) it has not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has not) received or sent copies or originals of this document or any related documents in, into or from a Restricted Jurisdiction;

(B) it has not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has not) otherwise utilised in connection with the Offer, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, e-mail, telex, telephone, internet or other forms of electronic communication) of interstate or foreign commerce of, or any facilities of a national securities exchange of, any Restricted Jurisdiction;

(C) it is not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is not) acting on a non-discretionary basis (as agent, nominee, custodian, trustee or otherwise) for or on behalf of a principal, unless such principal has given any instructions with respect to the Offer from outside a Restricted Jurisdiction;

(D) if such GDR Holder is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person is) a citizen, resident or national of a jurisdiction outside the United Kingdom or Georgia, it has (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has) observed the laws and regulatory requirements of the relevant jurisdiction in connection with the Offer, obtained all requisite governmental, exchange control or other consents, complied with all other necessary formalities and paid any issue, transfer or other taxes or duties or other requisite payments due in any such jurisdiction in connection with such acceptance and that it has not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has not) taken or omitted to take any action that will or may result in BGH, the Georgian Exchange Agent or any other person acting in breach of any legal or regulatory requirements of any such jurisdiction in connection with the Offer or the instruction to accept the Offer;

(E) it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) giving an instruction to accept the Offer from outside a Restricted Jurisdiction and was outside those jurisdictions at the time of the input and delivery of the ATOP Instruction; and

(F) it is not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is not) making an instruction to accept the Offer with a view to the offer, sale, resale or delivery, directly or indirectly, of any BGH Offer Shares in or into any Restricted Jurisdiction and will not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it will not) hold or acquire any BGH Offer Shares for any person who it has reason to believe is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has reason to believe is) purchasing for the purpose of such offer, sale, resale or delivery.

(iv) If it (or, if it is instructing the acceptance of the Offer on behalf of another person, such person) is a corporation or a legal entity, it is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) duly incorporated and existing pursuant to the legislation of the jurisdiction of its incorporation, and the acceptance of the Offer and the completion and delivery of the Certification Form do not and will not violate any provisions of its constitutional documents, conflict with any agreements to which it (or such other person) is a party, or violate or be contrary to any law (regulatory act) or non-normative act, resolution, order, decision or other act of any state authority, decision, order, writ or other act of a court of any jurisdiction, court of arbitration or arbitration panel applicable to it (or such other person, as the case may be).

(h) A GDR Holder (or, if it is instructing the acceptance of the Offer on behalf of another person, such person) must make the certifications as provided in the Certification Form in order to accept the Offer.

(i) By giving an ATOP Instruction to accept the Offer with respect to all or any portion of Bank Shares underlying their Rule 144A GDRs, a Rule 144A GDR Holder will represent, warrant, acknowledge, undertake and agree with the Exchange Agent, BGH and the Bank on behalf of itself (or, if it is instructing the acceptance of the Offer on behalf of another person(s), on behalf of any such person(s)) as follows:

(i) It irrevocably constitutes and appoints (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it irrevocably constitutes and appoints) the Exchange Agent as its true and lawful agent and attorney-in-fact (with full knowledge that the Exchange Agent also acts as the agent of BGH) with respect to such Rule 144A GDRs, with full powers of substitution and revocation (such power of attorney being deemed to be an irrevocable power coupled with an interest):

(A) subject to the Offer being declared wholly unconditional, to transfer to BGH (or to such other person or persons as BGH or its agents may direct), or to procure the transfer to BGH (or to such other person or persons as BGH or its agents may direct) of, all or any of the Bank Shares underlying the Rule 144A GDRs which are the subject of an ATOP Instruction; and

(B) if the Offer lapses or is withdrawn, to give instructions to DTC immediately after the Offer lapses to transfer all Rule 144A GDRs held by the Exchange Agent for the purposes of the Offer to the respective DTC participant accounts from which those Rule 144A GDRs were tendered.

(ii) The Tender Offer Documents have been made available to it (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it such availability) and it agrees (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it agrees) to all of the terms of the Offer and agrees that the acceptance of the Offer with respect to the Bank Shares underlying the Rule 144A GDRs pursuant to the procedures described in the Tender Offer Documents will constitute a binding agreement between it (or such other person) and BGH upon the terms and subject to the Conditions and the Certification Form. For the purposes of the Offer, it understands (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it understands) that Bank Shares underlying the Rule 144A GDRs will be deemed to have been accepted by BGH if, as and when, BGH gives oral or written notice thereof to the Georgian Exchange Agent.

(iii) It has (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has) full power, capacity and authority to accept the Offer and to execute and deliver all documents necessary to accept the Offer and the person(s) (if any) giving the ATOP Instruction on its behalf has been duly authorised to do so and to receive the BGH Offer Shares.

(iv) It has (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has) read and relied solely on information contained in the Tender Offer Documents, such information being all that it deems (or, if it is instructing the acceptance of the Offer on behalf of another person, such person deems) necessary to make a decision in respect of accepting the Offer and it has (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has) satisfied itself concerning all relevant legal, tax, business, financial and other considerations relevant to its (or such other person's) instruction to accept the Offer.

(v) It is (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it is) irrevocably and unconditionally entitled to sell and transfer the beneficial ownership of the Rule 144A GDRs comprised or deemed to be comprised in the ATOP Instruction and that such Rule 144A GDRs may be sold with full title guarantee, fully paid and free from all liens, charges, equities, encumbrances, rights of pre-emption and other interests of any nature whatsoever and together with all rights attaching to them on or after the date on which the Offer is declared wholly unconditional.

(vi) All authority conferred or agreed to be conferred shall not be affected by, and shall survive, the death or incapacity of the Rule 144A GDR Holder, and any obligation of the Rule 144A GDR Holder (or such other person) hereunder shall be binding upon the heirs, executors, administrators, trustees in bankruptcy, personal and legal representatives, successors and assigns of the Rule 144A GDR Holder (or such other person).

(vii) It understands (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it understands) that all questions as to the form and validity of all documents (including time of receipt) and the ownership, free of encumbrances, of Rule 144A GDRs and of Bank Shares underlying such Rule 144A GDRs accepted under the Offer will be determined by BGH, in its sole discretion, which determination shall be final and binding.

(viii) It recognises (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it recognises) that BGH may, at its sole discretion, terminate or amend this Offer or may postpone the acceptance or exchange of the tendered Bank Shares underlying the Rule 144A GDRs included in the Offer or may not be required to accept or exchange any of the Bank Shares underlying the Rule 144A GDRs to which the ATOP Instruction relates, and it agrees and undertakes (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it agrees and undertakes) to do all acts and things required to accept any Rule 144A GDRs returned to it.

(ix) It waives (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it waives) any and all rights in respect of the Rule 144A GDRs other than the right to receive the BGH Offer Shares to which it may become entitled under the Offer, or to receive the Rule 144A GDRs if the Offer lapses or is terminated by BGH.

(x) It has (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has) observed the laws of all relevant jurisdictions, obtained all requisite governmental, exchange control or other required consents, including corporate approvals, approvals of any regulatory body, if applicable, and any third parties, complied with all requisite formalities in connection with any acceptance, in any relevant jurisdiction and that it has not (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it has not) taken or omitted to take any action in breach of the terms and Conditions of the Offer or which will or may result in BGH or any other person acting in breach of the legal or regulatory requirements of any such jurisdiction in connection with the Offer.

(xi) It will (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it will) do all such acts and things as shall, in the opinion of BGH, be necessary or expedient to vest in BGH or its nominee(s) the Bank Shares underlying the Rule 144A GDRs comprised or deemed to be comprised in the ATOP Instruction and to enable the Exchange Agent to perform its functions as Exchange Agent for the purposes of the Offer.

(xii) It will (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that it will) ratify each and every act or thing which may be done or effected by BGH, the Exchange Agent, the Depositary or any of their respective directors or agents, as the case may be, in the exercise of any of the powers and/or authorities under this Paragraph 5.4 of this Part B of Part XVIII.

(xiii) If any provision of this Part B of Part XVIII shall be unenforceable or invalid or shall not operate so as to afford BGH or the Exchange Agent or any of their respective directors, agents or persons authorised by them, the benefit of the authorities and powers of attorney expressed to be given therein it will, with all practicable speed, do all such acts and things and execute all such documents that may be required or desirable to enable BGH, the Exchange Agent and/or the Depositary and any of their respective directors, agents or persons authorised by them to secure the full benefit of this Part B of Part XVIII.

(xiv) The making of an ATOP Instruction constitutes the submission of the GDR Holder (or, if it is instructing the acceptance of the Offer on behalf of another person, such person has confirmed to it that such person so submits) to the exclusive jurisdiction of the courts of England and Wales to settle any dispute arising out of or connected with the Offer, except in relation to those matters over which the courts of Georgia have exclusive jurisdiction.

(j) GDR Holders who have given an instruction to accept the Offer in accordance with this Paragraph 5.4 must also complete and return a Delivery Instruction Notice specifying whether they wish to receive the BGH Offer Shares to which they are entitled under the Offer in uncertificated form in CREST or in certificated form. **The Delivery Instruction Notice must be returned to the Exchange Agent in the manner described in Paragraph 5.4(f) above to be received before the GDR Expiration Time.**

(k) GDR Holders wishing to receive BGH Offer Shares in uncertificated form must provide details of a valid CREST stock account in the Delivery Instruction Notice. GDR Holders wishing to receive BGH Offer Shares in certificated form must provide an address in the Delivery Instruction Notice where the BGH Offer Shares shall be delivered.

(l) **If the Exchange Agent does not receive the Delivery Instruction Notice from the GDR Holder by the GDR Expiration Time or the CREST details contained in such Delivery Instruction Notice are incorrect or the GDR Holder has elected to receive BGH Offer Shares in certificated form, such GDR Holder will be issued BGH Offer Shares in certificated form. The delivery of BGH Offer Shares in certificated form will take place several Business Days after the delivery of BGH Offer Shares in uncertificated form through CREST.**

(m) Please note that any GDR Holder who gives an instruction to accept the Offer and sends a Delivery Instruction Notice to the Exchange Agent should continue to maintain its DTC securities account until the settlement of the Offer.

(n) **The cancellation fee of US$0.05 per GDR ordinarily payable under the Deposit Agreement by a GDR Holder who surrenders its GDRs and requests delivery to it of the Bank Shares underlying its GDRs or who receives the net proceeds of the sale of those Bank Shares following termination of the Deposit Agreement will not be payable by GDR Holders who exchange their GDRs for BGH Offer Shares pursuant to the Offer as the Bank has agreed to pay the fee on their behalf.**

5.5 General

(a) Existing Holders who wish to accept the Offer with respect to Bank Shares and to procure the acceptance of the Offer with respect to Bank Shares underlying GDRs must follow the individual procedures outlined above for each type of security.

(b) With respect to any Bank Shares or GDRs that are owned of record by two or more joint owners, to accept, or procure the acceptance of, the Offer all such owners must provide a Shareholder Acceptance (if applicable) and a Certification Form. If the Offer is accepted with respect to any Bank Shares or Bank Shares underlying GDRs and such Bank Shares GDRs are registered in different names, it is necessary to complete, execute and deliver a separate Form of Acceptance (or give acceptance orally) (if applicable) and complete, execute and (if applicable) deliver a separate Certification Form for each different registration.

6. Method of delivery

THE METHOD OF DELIVERY OF ANY DOCUMENTS, INCLUDING, WITH RESPECT TO BANK SHARES NOT HELD THROUGH DTC, EUROCLEAR OR CLEARSTREAM, ANY GDRs ACCEPTED, ANY FORM OF ACCEPTANCE, ANY CERTIFICATION FORM, AND ANY OTHER REQUIRED DOCUMENTS, IS AT THE OPTION AND SOLE RISK OF THE EXISTING HOLDERS. ANY DOCUMENTS TO BE PROVIDED PURSUANT HERETO, WILL BE DEEMED DELIVERED ONLY WHEN ACTUALLY RECEIVED BY THE GEORGIAN EXCHANGE AGENT OR THE EXCHANGE AGENT (AS THE CASE MAY BE).

7. Determinations of Validity

(a) All questions as to the validity, form, eligibility (including time of receipt) and valid acceptance of Existing Securities will be determined by BGH (or the Georgian Exchange Agent or the Exchange Agent, as the case may be, on BGH's behalf), in its sole discretion, which determination shall (subject to Applicable Laws) be final and binding. BGH reserves the absolute right to reject any or all acceptances determined not to be in appropriate form, invalid or incomplete or to refuse to accept any Bank Shares and GDRs if, in the opinion of BGH's counsel, accepting such Bank Shares or GDRs would be unlawful. BGH also reserves the absolute right to waive any of the Conditions (to the extent that any such Condition is capable of being waived) or any defect in any acceptance, whether generally or with respect to any particular Bank Share(s), GDR(s) or Existing Holder(s). BGH's interpretations of the terms and Conditions (including the Form of Acceptance, the Certification Form and the instructions thereto), the Tender Offer Proposal and this Prospectus shall (subject to Applicable Laws) be final and binding.

(b) NONE OF BGH, THE BANK, THEIR BOARDS OF DIRECTORS, SUPERVISORY OR MANAGEMENT BOARDS (AS THE CASE MAY BE), THE GEORGIAN EXCHANGE AGENT OR THE EXCHANGE AGENT OR ANY OTHER PERSON IS OR WILL BE OBLIGATED TO GIVE ANY NOTICE OF ANY DEFECT OR IRREGULARITY IN ANY ACCEPTANCE, AND NONE OF THEM ACCEPTS OR WILL INCUR ANY LIABILITY FOR FAILURE TO GIVE ANY SUCH NOTICE.

8. Delivery of BGH Offer Shares and Return of Existing Securities

8.1 BGH Offer Shares will be delivered to the accounts of Euroclear and Clearstream in CREST and credited to the accounts of accepting Existing Holders or their nominees with Euroclear or Clearstream (or in CREST, in the case of Rule 144A GDR Holders who have accepted the Offer and provided CREST delivery instructions). In the case of Regulation S GDR Holders, BGH Offer Shares will be credited to the Euroclear or Clearstream account in which their Regulation S GDRs were held. In the case of Bank Shareholders, BGH Offer Shares will be delivered to the account of the Bank in Euroclear and credited to the accounts of such Bank Shareholders or their nominees with the Georgian Exchange Agent.

8.2 Following Admission, transactions in BGH Offer Shares will settle in CREST. BGH Offer Shares which are credited to Euroclear or Clearstream accounts may be transferred to CREST using standard market processes. If they are in any doubt as to the process, Existing Holders should contact their bank, brokerage or nominee firm.

8.3 The BGH Offer Shares to be delivered to Participating Holders will be allotted and issued by BGH on or about the day of Admission and delivered as provided for in the Tender Offer Documents.

8.4 If any Bank Shares are not accepted by BGH under the Tender Offer, including as a result of termination or lapsing of the Offer, they will be held by the Georgian Exchange Agent. In such case, the Georgian Exchange Agent will notify the relevant Bank Shareholder that it is returning the relevant Bank Shares to it as well as the number of Bank Shares so returned and await until further instructions are received.

8.5 If any Regulation S GDRs are not accepted by BGH under the Offer, including as a result of termination or lapsing of the Offer, they will be released for trading in accordance with Euroclear's or Clearstream's normal procedures.

8.6 If any Rule 144A GDRs are not accepted by BGH under the Tender Offer, including as a result of the termination or lapsing of the Offer, they will be returned to the account from which they were delivered to the Exchange Agent.

8.7 All remittances, communications, notices, certificates and documents of title sent by, to or from Existing Holders or their appointed agents will be sent at their own risk.

9. Overseas Existing Holders

General

9.1 **The implications of the Offer for, and the distribution of the Tender Offer Documents to, Overseas Existing Holders or to persons who are custodians, nominees of or trustees for such persons and the availability of the BGH Offer Shares to such persons may be affected by the laws of the relevant jurisdictions. Overseas Existing Holders should inform themselves about and observe any applicable legal or regulatory requirements. If Overseas Existing Holders are in any doubt about their position, they should consult their appropriate adviser in the relevant jurisdiction.**

9.2 It is the responsibility of any person into whose possession the Tender Offer Documents come or who wishes to accept the Offer to satisfy themselves/itself as to the full observance of the laws and regulatory requirements of the relevant jurisdiction in connection with the Offer and the distribution of the Tender Offer Documents, including the obtaining of any governmental, exchange control and other consents which may be required and/or compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes, levies or other requisite payments due in such jurisdiction. Any such Overseas Existing Holder shall be responsible for any such issue, transfer or other taxes or levies or other payments by whomsoever payable and BGH (and any person acting on behalf of BGH) shall be fully indemnified and held harmless by such Overseas Existing Holders for any such issue, transfer or other taxes or levies or other payments which BGH (and any person acting on behalf of BGH) may be required to pay.

9.3 Unless determined by BGH and permitted by applicable law and regulation, the Offer will not be capable of acceptance from or within, any Restricted Jurisdiction and the Offer cannot be accepted by any use, means or instrumentality or otherwise from any Restricted Jurisdiction.

9.4 Copies of the Tender Offer Documents are not being (unless determined otherwise by BGH in its sole discretion), and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in, (including by way of facsimile transmission) into or from any Restricted Jurisdiction, including to Existing Holders with registered addresses in a Restricted Jurisdiction or to persons whom BGH knows to be custodians, trustees or nominees holding Existing Securities for persons with registered addresses in a Restricted Jurisdiction. Persons receiving those documents (including, without limitation, custodians, nominees and trustees) should not distribute, forward, send or mail them in, into or from a Restricted Jurisdiction or use such mails or any such means, instrumentality or facility for any purpose directly or indirectly in connection with the Offer, and so doing may render any purported acceptance of the Offer invalid.

9.5 Persons wishing to accept or give an instruction to accept the Offer must not use the mails of any Restricted Jurisdiction or any such means, instrumentality or facility for any purpose directly or indirectly relating to acceptance of the Offer. Existing Holders (including custodians, nominees or trustees) who may have a contractual or legal obligation, or may otherwise intend, to forward the Tender Offer Documents, should read the further details in this regard which are contained in this Paragraph 9 of this Part B of Part XVIII before taking any action. Envelopes containing any Form of Acceptance or Certification Form, evidence of title or other documents relating to the Offer should not be postmarked in, or otherwise dispatched from, a Restricted Jurisdiction and all acceptors must provide addresses outside a Restricted Jurisdiction for the receipt of the consideration to which they are entitled under the Offer or for the return of any Form of Acceptance or Certification Form (to the extent applicable).

9.6 BGH reserves the right, in its sole discretion, to investigate in relation to any Shareholder Acceptance or instructions to accept the Offer, whether the representations and warranties set out in Paragraph 5 of Part B (as applicable) of this Part XVIII could have been truthfully given by the relevant Existing Holder and, if such investigation is made and as a result BGH determines (for any reason) that such representations and warranties could not have been so given, such acceptance or instructions to accept may be rejected as invalid.

9.7 If any person, despite the restrictions described above, and whether pursuant to a contractual or legal obligation or otherwise, forwards this document or any related document in, into or from a Restricted Jurisdiction or uses the mails or any means or instrumentality (including, without limitation, facsimile transmission, e-mail, telex, telephone, internet or other forms of electronic transmission) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, a Restricted Jurisdiction in connection with that forwarding, that person should:

(a) inform the recipient of such fact;

(b) explain to the recipient that such action may invalidate any purported acceptance by the recipient; and

(c) draw the attention of the recipient to this Paragraph 9.7.

9.8 Notwithstanding any other provision of this Paragraph 9 of Part B of Part XVIII, BGH may in its sole and absolute discretion make the Offer to a resident in a Restricted Jurisdiction if BGH is satisfied, in that particular case, that to do so would not constitute a breach of any securities or other relevant legislation of a Restricted Jurisdiction.

9.9 The provisions of this Paragraph 9 may be waived, varied or modified as regards a specific Existing Holder or on a general basis by BGH in its sole discretion. Subject to this discretion, the provisions of this Paragraph 9 supersede any terms of the Offer inconsistent with them.

9.10 References in this Paragraph 9 to an Existing Holder shall include the person or persons making an ATOP Instruction or Electronic Instruction (as the case may be) and the person or persons giving a Shareholder Acceptance and, in the event of more than one person giving a Shareholder Acceptance, the provisions of this Paragraph 9 shall apply to them jointly and severally.

9.11 The relevant clearances with respect to the issuance of BGH Offer Shares have not been, nor will they be, obtained from the securities commission of any province or territory of Canada; no prospectus has been lodged with, or registered by, the Australian Securities and Investments Commission or the Japanese

Ministry of Finance; and the BGH Offer Shares have not been, nor will they be, registered under or offered in compliance with applicable securities laws of any state, province, territory or jurisdiction of a Restricted Jurisdiction. Accordingly, the BGH Offer Shares are not being and may not be (unless an exemption under relevant securities laws is available) offered, sold, resold or delivered, directly or indirectly, in or into any Restricted Jurisdiction or any other jurisdiction if to do so would constitute a violation of the relevant laws of, or require registration thereof in, such jurisdiction, or to, or for the account or benefit of, any person or resident of any Restricted Jurisdiction.

9.12 If any written notice from an Existing Holder withdrawing its Shareholder Acceptance or its instruction to accept in accordance with Paragraph 3 of this Part B of Part XVIII is received in an envelope postmarked in, or which otherwise appears to BGH or its agents to have been sent from, a Restricted Jurisdiction, BGH reserves the right, in its absolute discretion, to treat that notice as invalid.

United States

9.13 The Offer is being made in reliance on, and in compliance with, Rule 14d-1(d) under the Securities Exchange Act. The Offer is being made subject to United Kingdom disclosure requirements which are different from certain United States disclosure requirements. In addition, US investors should be aware that this Prospectus has been prepared in accordance with a United Kingdom format and style, which differs from the United States format and style. In particular, the appendices to this Prospectus contain information concerning the Offer in accordance with UK disclosure practice which may be material and may not have been summarised elsewhere in the document. Furthermore, the payment and settlement procedure with respect to the Offer will comply with the relevant United Kingdom rules and practice, which differ from United States payment and settlement procedures. BGH will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and the rules and regulations thereunder in connection with the Offer.

9.14 BGH Offer Shares have not been, and will not be, registered under the Securities Act or under any securities laws of any state or other jurisdiction of the United States. BGH Offer Shares may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

9.15 In making the Offer, BGH is relying on the exemption from the registration requirements of the Securities Act provided by Section 4(2) of that Act. Accordingly, special requirements apply to the following persons (each a **"US Holder"**):

(a) an Existing Holder that is either (A) in the United States or (B) acting as agent, nominee, custodian, trustee or otherwise for or on behalf of a person in the United States;

(b) an Existing Holder who completes the Form of Acceptance and/or Certification Form with an address in the United States or has a registered address in the United States;

(c) an Existing Holder who inserts in its Form of Acceptance and/or Certification Form the name and address of a person or agent in the United States to whom it wishes the consideration to which it is entitled under the Offer and/or any documents to be sent;

(d) an Existing Holder whose acceptance is received in an envelope postmarked in, or which otherwise appears to BGH or its agents to have been sent from, the United States; or

(e) any other Existing Holder that appears to BGH or its agents to be in the United States.

9.16 All Existing Holders who intend to accept, or procure the acceptance of, the Offer will be required to complete and execute a Certification Form containing certain acknowledgements, representations, warranties and agreements. US Holders that certify that they are QIBs, as defined in Rule 144A under the Securities Act, or institutional accredited investors, within the meaning of Rule 501(a) under the Securities Act, and otherwise satisfy the requirements set forth in the Certification Form and this Prospectus (**"Participating US Holders"**) will receive BGH Offer Shares in consideration for tendering their Existing Securities in accordance with the terms of the Offer. The BGH Offer Shares will be "restricted securities" within the meaning of the Securities Act, subject to restrictions on transfer that may require Participating US Holders participating in the Offer to bear the financial risks of the BGH Offer Shares for an indefinite period of time. In order to accept the Offer US Holders must make the certifications as provided in the Certification Form.

10. Fees and Expenses

10.1 Other than as described below, no fees will be paid to brokers, dealers or others by either BGH or the Bank in connection with the Offer. BGH is paying the costs of printing and mailing materials to Existing Holders, certain legal and filing fees and the fees and expenses of the Georgian Information Agent, the Information Agent, the Georgian Exchange Agent, the Exchange Agent, the Georgian Registrar and Computershare Investor Services PLC (the **"UK Registrar"**). BGH will also cover the cost of re-registration of Bank Shares with the Georgian Registrar with respect to the Offer, including with respect to the return of Bank Shares if the Offer lapses or is withdrawn. However, brokers, dealers or other persons may charge Existing Holders a fee for soliciting acceptances with respect to Bank Shares and/or GDRs pursuant to the Offer. Existing Holders will pay all share transfer taxes, if any, with respect to the transfer and acceptance of the Offer with respect to their Bank Shares and GDRs. Any fees charged by Georgian depositaries shall be borne by the accepting Existing Holders.

10.2 Georgian Exchange Agent, Exchange Agent and Information Agents

BGH has retained BG Capital to act as the Georgian Exchange Agent, BNY Mellon Shareowner Services as the Exchange Agent, BG Capital as the Georgian Information Agent and DF King Worldwide as the Information Agent for the Offer. BG Capital, BNY Mellon Shareowner Services and DF King Worldwide will each receive reasonable and customary compensation for their services as the Georgian Exchange Agent, Exchange Agent and Information Agents and each will be reimbursed by BGH for certain out-of-pocket expenses.

10.3 Registrars

BGH has entered into a services agreement with the Registrars to facilitate the process of accepting the Offer with respect to Bank Shares. The Registrars will receive reasonable and customary compensation related to an Offer of this nature and will be reimbursed by BGH for certain out-of-pocket expenses and share registrar fees charged on transfers of Bank Shares held by Bank Shareholders directly with the Georgian Registrar.

11. CREST

11.1 CREST is a paperless settlement procedure enabling securities to be evidenced without a certificate and transferred otherwise than by a written instrument. The Articles permit the holding of shares under the CREST system. BGH has applied for the BGH Offer Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the BGH Offer Shares following Admission may take place within the CREST system if any BGH Shareholder so wishes.

11.2 CREST is a voluntary system and holders of BGH Offer Shares who wish to receive and retain certificates will be able to do so. Investors applying for BGH Offer Shares under the Offer may, however, elect to receive BGH Offer Shares in uncertificated form if they are a system-member (as defined in the CREST Regulations) in relation to CREST.

12. Additional Information

12.1 If the Offer is accepted with respect to any Bank Shares that are owned of record by two or more joint owners, all such owners must provide the Shareholder Acceptance and Certification Form.

12.2 No fractional BGH Offer Shares will be issued pursuant to the Offer.

12.3 Before the Offer may be declared wholly unconditional, the Georgian Exchange Agent and the Exchange Agent shall issue a certificate to BGH (or its respective agents) which states the number of Bank Shares in respect of which acceptances have been received and not validly withdrawn, which complies with the provisions of Paragraph 2 of this Part B of Part XVIII.

12.4 The terms, provisions, instructions and authorities contained in or deemed to be incorporated in the Form of Acceptance and/or Certification Form constitute part of the terms of the Offer. Words and expressions defined in this Prospectus and the Tender Offer Proposal have the same meanings when used in the Form of Acceptance and/or Certification Form, unless the context otherwise requires. The provisions of this Part XVIII shall be deemed to be incorporated into and form part of the Form of Acceptance and/or Certification Form.

12.5 If the Offer Period is extended, a reference in the Tender Offer Documents to the Expiration Time will be deemed to refer to the expiry date of the Offer as so extended.

12.6 No acknowledgement of receipt of any Form of Acceptance and/or Certification Form, transfer by means of CREST, communication, notice, share certificate(s) or other document(s) of title will be given by or on behalf of BGH (except as required by law). All communications, notices, certificates, documents of title and remittances to be delivered by, to or on behalf of Existing Holders (or their designated agents) will be delivered by or sent to or from them (or their designated agent(s)) at their own risk.

12.7 The Offer is being made for all of the issued and to be issued Bank Shares. Any omission or failure to despatch the Tender Offer Documents and/or notice required to be despatched under the terms of the Offer to, or any failure to receive the same by, any person to whom the Offer is, or should be, made, shall not invalidate the Offer in any way or create any implication that the Offer has not been made to any such person.

12.8 Subject to Part B of Part XVIII, the Offer is made on 21 December 2011 and is capable of acceptance from and after that time. The Tender Offer Documents are available from the Georgian Exchange Agent or Exchange Agent.

12.9 All powers of attorney, appointments of agents and authorities on the terms conferred by or referred to in this Part B of Part XVIII, the Form of Acceptance and/or Certification Form is given by way of security for the performance of the obligations of the Existing Holder and are irrevocable (in respect of powers of attorney in accordance with section 4 of the Powers of Attorney Act 1971, to the extent not prohibited by Applicable Laws), except in the circumstances where the donor of the power of attorney, appointment or authority validly withdraws his or her acceptance or instruction to accept in accordance with Paragraph 3 of this Part B of Part XVIII.

12.10 By accepting the Offer in accordance with the procedures described herein, Existing Holders further authorise BGH to supply information regarding their acceptances of the Offer as required by Applicable Laws or otherwise requested by governmental or regulatory authorities.

12.11 In relation to any ATOP Instruction or Electronic Instruction made through the DTC, Euroclear or Clearstream (as the case may be), BGH reserves the right to make such alterations, additions or modifications to the terms of the Offer as may be necessary or desirable to give effect to any purported acceptance of the Offer, whether in order to comply with the facilities or requirements of the relevant electronic settlement system, or otherwise.

12.12 The Offer and any contractual and non-contractual obligations arising out of or connected with the Offer shall be governed by, and construed in accordance with, English law, except that the statutory tender offer provisions relating to the Bank Shares shall be governed by Georgian law. The courts of England and Wales shall have exclusive jurisdiction to settle any dispute arising out of or connected with the Offer, except in relation to those matters over which the courts of Georgia have exclusive jurisdiction.

12.13 For the purposes of this document, (i) the time of receipt of any Electronic Instruction in the relevant settlement system shall be the time at which the relevant instruction settles in the relevant settlement system; (ii) the time of receipt of a Certification Form shall be the time when the Certification Form is delivered.

12.14 Notwithstanding any other provision of this Part B of Part XVIII, BGH reserves the right to treat as valid in whole or in part any acceptance or instruction to accept the Offer if received by the Georgian Exchange Agent or the Exchange Agent or otherwise on behalf of BGH which is not entirely in order or in the correct form or which is not accompanied by (as applicable) the relevant document(s) or the relevant instruction or is received by it at any place or places or in any form or manner determined by either the Georgian Exchange Agent or the Exchange Agent or BGH otherwise than as set out in the Tender Offer Documents. In that event, transfer of BGH Offer Shares will not be made until after the acceptance and/or instruction to accept is entirely in order or other document(s) of title or indemnities satisfactory to BGH have been received by the Georgian Exchange Agent or the Exchange Agent.

12.15 Bank Shares are to be acquired by BGH under the Offer fully paid and free from all liens, charges, equities, encumbrances, rights of pre-emption and other interests of any nature whatsoever and together with all rights attaching to them on or after the date on which the Offer is declared wholly unconditional.

12.16 This Prospectus has been prepared in accordance with the Prospectus Rules of the UKLA and has been approved as such by the FSA in accordance with Section 85 of the FSMA. A copy of this Prospectus has been filed with the FSA and has been made available to the public in accordance with Paragraph 3.2.1 of the Prospectus Rules of the UKLA.

12.17 All references in this Part XVIII to any statute or statutory provision shall include a statute or statutory provision which amends, consolidates or replaces the same (whether before or after the date hereof).

13. Settlement and transfer of BGH Offer Shares

13.1 See Paragraph 10 ("Settlement") of Part IV for information on the settlement and transfer of the BGH Offer Shares.

13.2 If BGH extends the Offer or if for any reason (whether before or after any Existing Securities have been accepted for tender), the acceptance of Existing Securities, or the issuance of BGH Offer Shares is delayed or if BGH is unable to accept Existing Securities or issue BGH Offer Shares pursuant to the Offer, then, without prejudice to BGH's rights under the Offer, Existing Securities may be retained by the Georgian Exchange Agent or the Exchange Agent, as the case may be, on behalf of BGH (subject to Rule 14e-1(c) under the Exchange Act, which requires that an offeror pay the consideration offered or return the securities deposited by or on behalf of the holder promptly after the termination or withdrawal of a tender offer), except as otherwise provided in this Part XVIII.

PART XIX

SUMMARY OF BGH ARTICLES OF ASSOCIATION

The following summary description of BGH's share capital and corporate structure is based on, and qualified by reference to, the Articles. This summary does not purport to give a complete overview and should be read in conjunction with the Articles, the Companies Act and regulations made thereunder, and the relevant provisions of English law, and should not be considered legal advice regarding these matters. This summary is subject to the provisions of the Companies Act, so far as they apply to or affect BGH.

A summary of the principal differences between the Articles and the Charter and a summary of the significant differences between English and Georgian law are set out in Part XX "Comparison of Shareholder Rights in BGH and GDR Holder and Shareholder Rights in the Bank".

BGH's Articles do not contain any restriction on BGH's objects and accordingly, pursuant to section 31 of the Companies Act, BGH's objects are unrestricted. Copies of BGH's Articles and the Bank's Charter are available for inspection at 84 Brook Street, London, W1K 5EH, United Kingdom.

The Articles contain, among others, provisions to the following effect:

Voting Rights

Subject to any special rights or restrictions as regards voting for the time being attached to any class of BGH Shares and certain other provisions of the Articles, on a show of hands every BGH Shareholder present in person or by proxy or (in the case of a corporation) by duly authorised representative shall have one vote and on a poll every BGH Shareholder present in person or by proxy shall have one vote for each BGH Share of which he or she is the holder.

In the case of joint holders, unless such joint holders shall have chosen one of their number to represent them and have so notified BGH in writing, the vote of the most senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names of the holders stand in the register.

Unless the BGH Directors otherwise decide, no BGH Shareholder shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him or her in respect of any BGH Shares of which he or she is holder or one of the joint holders have been paid.

Dividends

BGH may by ordinary resolution declare dividends but no such dividend shall exceed the amount recommended by the BGH Directors.

The BGH Directors may pay fixed and interim dividends as appears to be justified by the profits of BGH available for distribution. If the BGH Directors act in good faith, the BGH Directors shall not incur any liability to BGH Shareholders for any loss they may suffer by the lawful payment on any other class of BGH Shares having non-preferred or deferred rights of any such fixed or interim dividend.

The BGH Directors may, with the prior authority of an ordinary resolution of BGH, direct payment of a dividend in whole or in part in specie and the BGH Directors shall give effect to such resolution. No dividend or other monies payable in respect of a share in BGH shall bear interest against BGH unless interest is provided by the rights attached to those shares.

The BGH Directors may deduct from any dividend or other moneys payable to a BGH Shareholder on or in respect of such BGH Shares all sums of money (if any) presently payable by the holder to BGH on account of calls or otherwise in relation to such shares.

All unclaimed dividends may be invested or otherwise made use of by the BGH Directors for the benefit of BGH until claimed. Any dividend unclaimed after a period of twelve years from the date on which such dividend was declared or became due for payment shall be forfeited and revert to BGH.

The BGH Directors may, if authorised by an ordinary resolution of BGH, offer those holders of a particular class of shares that have elected to receive them further shares of that class or BGH Shares by way of scrip dividend instead of cash.

The BGH Directors may fix a date as the record date by reference to which a dividend will be declared or paid or a distribution, allotment or issue made, and that date may be before, on or after the date on which the dividend, distribution, allotment or issue is declared, paid or made.

Capitalisation of Reserves

The BGH Directors may, with the authority of an ordinary resolution of BGH: (i) resolve to capitalise any sum standing to the credit of any reserve account of BGH (including share premium account, capital redemption reserve, merger reserve and profit and loss account) or any sum standing to the credit of profit and loss account (whether or not it is available for distribution); and (ii) appropriate that sum as capital to BGH Shareholders in proportion to the nominal amount of share capital held by them respectively and apply that sum on their behalf in paying up in full any unissued shares or debentures of BGH of a nominal amount equal to that sum and allot shares or debentures credited as fully paid to those BGH Shareholders, or as they may direct, in those proportions or in paying up the whole or part of any amounts which are unpaid in respect of any issued BGH Shares held by them respectively, or otherwise deal with such sum as directed by the resolution.

BGH Shares

Subject to any relevant authority given by BGH in a general meeting, the BGH Directors may exercise any power of BGH to allot BGH Shares, or to grant rights to subscribe for or to convert any security into BGH Shares, to such persons, at such times and on such terms as the BGH Directors may decide.

Subject to any rights attached to any existing shares, any share in BGH may be allotted or issued with, or have attached to it, such rights or restrictions as BGH may by ordinary resolution determine, or, subject to and in default of such determination, as the BGH Directors may determine.

Subject to any rights attached to any existing shares, BGH Shares may be issued which are to be redeemed or are liable to be redeemed at the option of BGH or the holder, and the BGH Directors may determine the terms, conditions and manner of redemption of any BGH Shares so issued.

BGH may exercise all the powers conferred or permitted by the provisions of the Companies Act and regulations made thereunder of paying commission or brokerage. Subject to the provisions of the Companies Act, any such commission or brokerage may be satisfied by the payment of cash or by the allotment of fully or partly paid shares or by the grant of an option to call for such an allotment or by any combination of such methods as the BGH Directors think fit.

Variation of Rights

The rights attached to a class of BGH Shares may be varied or abrogated either with the consent in writing of the holders of at least three-fourths of the nominal amount of the issued BGH Shares of that class (excluding any share in BGH of that class held as treasury shares) or with the sanction of a special resolution passed at a separate meeting of the holders of the issued shares of that class validly held in accordance with the relevant provisions of the Articles.

The rights attached to a class of BGH Shares are not, unless otherwise expressly provided for in the rights attaching to those BGH Shares, deemed to be varied by the creation, allotment or issue of further shares ranking *pari passu* with or subsequent to them or by the purchase or redemption by BGH of its own shares in accordance with the provisions of the Companies Act.

Interests in BGH Shares/Failure to disclose interests in BGH Shares

Where notice is served by BGH under section 793 of the Companies Act (a **"section 793 notice"**) on a BGH Shareholder, or another person appearing to be interested BGH Shares held by that BGH Shareholder, and the BGH Shareholder or other person has failed in relation to any BGH Shares (the **"default shares"**), to give BGH the information required within 14 days from the date of service of the section 793 notice, the following sanctions apply, unless the BGH Directors otherwise decide:

- BGH Shareholder shall not be entitled in respect of the default shares to be present or to vote (either in person or by proxy) at a general meeting or at a separate meeting of the holders of a class of BGH Shares or on a poll; and
- where the default shares represent at least 0.25% in nominal value of the issued BGH Shares of their class (excluding any share in BGH of their class held as treasury shares):
  - a dividend (or any part of a dividend) or other amount payable in respect of the default shares shall be withheld by BGH, which has no obligation to pay interest on it, and the BGH Shareholder shall not be entitled to elect, pursuant to the Articles, to receive BGH Shares instead of a dividend; and
  - no transfer of any certificated default shares shall be registered unless the transfer is an excepted transfer, or the BGH Shareholder is not himself or herself in default in supplying the information required; and the BGH

Shareholder proves to the satisfaction of the BGH Directors that no person in default in supplying the information required is interested in any BGH Shares the subject of the transfer.

Ownership Restrictions and Related Reporting Obligations

Each BGH Shareholder acknowledges that BGH may from time to time directly or indirectly hold interests in shares or otherwise have the direct or indirect ability to exercise voting rights in any subsidiary undertaking of BGH from time to time which is licensed and/or supervised by a regulatory authority (a **"regulated group company"**) and that such holding or ability to exercise voting rights may impose regulatory requirements on the BGH Shareholder or any other person (as a person indirectly interested in such a regulated group company).

No person may directly or indirectly acquire (through a transaction or series of transactions), hold and/or otherwise have the direct or indirect ability to exercise voting rights in respect of, interests in BGH Shares which would result in such person directly or indirectly, alone or together with any of its related person(s), having a direct or indirect interest in shares of or ability to exercise voting rights over at least 10 per cent., 25 per cent. or 50 per cent. (or such other percentages as a regulatory authority may determine from time to time) in any regulated group company (a **"significant interest"**) without the prior satisfaction of, or timely compliance with, all regulatory requirements.

If a person acquires or otherwise holds a significant interest he or she shall be required to:

- disclose to BGH the identity of the ultimate beneficial owner(s) of such significant interest; and
- certify to BGH that such person(s) (or such ultimate beneficial owner(s)) has/ have complied with all regulatory requirements in respect of the acquisition and/or holding (as applicable) of such significant interest.

If BGH knows or has reasonable cause to believe that a person has failed to comply with the above requirements and BGH determines (based on a notification by a regulatory authority or on legal advice) that such failure has, will or may cause BGH and/or any of its subsidiaries to be unable to exercise, directly or indirectly, voting rights in any regulated group company and/or a regulatory authority has, will or may impose any material penalties on BGH and/or any of its subsidiaries and/or any regulated group company, BGH shall forthwith either:

- send a notice (a **"default notice"**) to the person(s) requiring such person(s), to disclose within 30 days of the date of the default notice the identity of the ultimate beneficial owner(s) of any significant interest held by him and/or any of his related persons and certify that all regulatory requirements in respect of the relevant holding have been satisfied; or
- send a notice (a **"disenfranchisement notice"**) to the relevant BGH Shareholder informing him/ them that in respect of such part of his/ their holding of interests in BGH Shares (including, for the avoidance of doubt, any interests in BGH Shares allotted or issued after the date of the disenfranchisement notice in respect of that holding) he/ they shall not be entitled to vote (either in person or by proxy) that holding at a general meeting or at a separate meeting of the holders of a class of shares or on a poll until 7 days after the earlier of: (i) any holding subject to a default notice is transferred pursuant to an excepted transfer (as defined in Article 65 of the Articles); or (ii) BGH is reasonably satisfied that the above provisions have been complied with.

Where a default notice is served by BGH and the BGH Shareholder or other person fails to give BGH the required disclosures and certifications in an acceptable form within 30 days of the date of the default notice and BGH determines (based on a notification by a regulatory authority or on legal advice) that such failure has, will or may cause BGH and/or any of its subsidiaries to be unable to exercise, directly or indirectly, voting rights in any regulated group company and/or a regulatory authority has, will or may impose any material penalties on BGH and/or any of its subsidiaries and/or any regulated group company, BGH shall forthwith send a disenfranchisement notice to the relevant member(s).

For the purpose of enforcing these sanctions, BGH may give notice to a BGH Shareholder requiring the BGH Shareholder to convert the shares subject to a disenfranchisement notice held in uncertificated form to certificated form by the time stated in the notice.

For the purposes of these provisions in the Articles:

"regulatory authority" means the relevant regulator in relation to a regulatory requirement being, at the date of adoption of the Articles, the National Bank of Georgia and/or the National Bank of the Republic of Belarus (or, in either case, any successor body(ies) thereto or other entity with the authority to regulate the relevant regulatory requirement); and

"regulatory requirement" means a requirement pursuant to the Law of Georgia on Activities of Commercial Banks, the Law of Georgia on the Securities Market, the Law of Georgia on Insurance, the Banking Code of the

Republic of Belarus or rules, orders, normative acts or regulations adopted pursuant thereto (in each case as amended from time to time) to notify, seek the approval of or otherwise comply with any requirement of a regulatory authority in relation to the acquisition or holding of a significant interest.

Transfer of BGH Shares

A BGH Shareholder may transfer all or any of his or her certificated BGH Shares by instrument of transfer in writing in any usual form or in any other form approved by the BGH Directors, and the instrument shall be executed by or on behalf of the transferor and (in the case of a transfer of a BGH Share in BGH which is not fully paid) by or on behalf of the transferee. A BGH Shareholder may transfer all or any of his or her uncertificated shares in accordance with the Uncertificated Securities Regulations 2001 (the **"Regulations"**). Subject to the provisions of the Regulations, the transferor of a share in BGH is deemed to remain the BGH Shareholder until the name of the transferee is entered in the register in respect of it.

The BGH Directors may, in their absolute discretion, refuse to register the transfer of a certificated BGH Share unless all of the following conditions are satisfied:

- it is in respect of only one class of BGH Shares;
- it is in favour of (as the case may be) a single transferee or not more than four joint transferees;
- it is duly stamped (if required); and
- it is delivered for registration to the office or such other place as the BGH Directors may decide, accompanied by the certificate for BGH Shares to which it relates and such other evidence as the BGH Directors may reasonably require to prove the right of the transferor to make the transfer.

If the BGH Directors refuse to register the transfer of a certificated BGH Share they shall, within two months after the date on which the transfer was lodged with BGH, send notice of the refusal, together with their reasons for the refusal, to the transferee. An instrument of transfer which the BGH Directors refuse to register shall (except in the case of suspected fraud) be returned to the person depositing it. BGH may retain all instruments of transfer which are registered, but any instrument of transfer of any share in BGH which the BGH Directors refuse to register shall (except in the case of suspected fraud) be returned to the person lodging it when notice of the refusal is given.

Subject to the provisions of the Regulations, the BGH Directors have the power to resolve that a class of BGH Shares shall become a participating security and/or that a class of shares shall cease to be a participating security.

Uncertificated BGH Shares of a class are not to be regarded as forming a separate class from certificated BGH Shares of that class.

A BGH Shareholder may, in accordance with the Regulations, change a BGH Share of a class which is a participating security from a certificated share in BGH to an uncertificated BGH Share and from an uncertificated BGH Share to a certificated BGH Share.

In accordance with and subject to the provisions of the Regulations, a transfer of title to any uncertificated BGH Share shall be registered unless the Regulations permit a transfer to be refused.

If the transfer of an uncertificated BGH Share is refused within the time period stipulated by the Regulations, notice of the refusal shall be sent to the transferee.

The Company (in its absolute discretion) may or may not charge a fee for registering the transfer of a BGH Share or other document or instructions relating to or affecting the title to a BGH Share or the right to transfer it or for making any other entry in the register.

Lien and Forfeiture

BGH has a first and paramount lien on all partly paid BGH Shares for an amount payable in respect of the BGH Share, whether the due date for payment has arrived or not. The lien applies to all dividends from time to time declared or other amounts payable in respect of the BGH Share.

The BGH Directors may either generally or in a particular case declare a share in BGH to be wholly or partly exempt from a lien. Unless otherwise agreed with the transferee, the registration of a transfer of a share in BGH operates as a waiver of BGH's lien (if any) on that share in BGH.

For the purpose of enforcing the lien referred to in the Articles, the BGH Directors may sell all or any of the BGH Shares subject to the lien at such time or times and in such manner as it may decide provided that:

- the due date for payment of the relevant amounts has arrived; and
- the BGH Directors have served a written notice on the BGH Shareholder concerned stating the amounts due, demanding payment thereof and giving notice that if payment has not been made within 14 clear days after the service of the notice that BGH intends to sell the shares.

To give effect to a sale, the BGH Directors may authorise a person to transfer the BGH Shares in the name and on behalf of the holder, or to cause the transfer of such BGH Shares, to the purchaser or his or her nominee. The purchaser is not bound to see to the application of the purchase money and the title of the transferee is not affected by an irregularity in or invalidity of the proceedings connected with the sale.

The net proceeds of a sale effected under the Articles, after payment of BGH's costs of the sale, shall be applied in or towards satisfaction of the amount in respect of which the lien exists. The balance (if any) shall be paid to the BGH Shareholder immediately before the sale.

General Meetings

An annual general meeting shall be held within each period of six months beginning with the day following BGH's accounting reference date, at such place or places within the United Kingdom, and at such date and time as may be decided by the BGH Directors.

The BGH Directors may, whenever they think fit, call a general meeting. The BGH Directors are also required to call a general meeting once BGH has received requests from BGH Shareholders representing at least 5% of the paid-up capital of BGH (disregarding any treasury shares) to do so in accordance with the Companies Act and regulations made thereunder. The BGH Directors must call a general meeting with 21 days of receiving a valid request from BGH Shareholders and provide for the general meeting to be held on a date not more than 28 days after the date of the notice of meeting. Where BGH Shareholders request for a general meeting identified a resolution intended to be moved at the meeting, the notice of meeting must include notice of this resolution.

An annual general meeting shall be called by not less than 21 clear days' notice and all other general meetings shall be called by not less than 14 clear days' notice.

The BGH Directors may determine that persons entitled to receive notices of meeting are those persons entered on the register at the close of business on a day determined by the BGH Directors, provided that, if BGH is a participating issuer, the day determined by the BGH Directors may not be more than 21 days before the day that the relevant notice of meeting is being given. The notice of meeting must also specify a time (which shall not be more than 48 hours before the time for the holding of the meeting) by which a person must be entered on the register in order to have the right to attend or vote at the meeting. No business may be transacted at a general meeting unless a quorum is present. The quorum for a general meeting is two BGH Shareholders present in person or by proxy and entitled to vote.

Appointment of BGH Directors

The number of BGH Directors must not be less than two and must not be more than fifteen unless otherwise decided by BGH by ordinary resolution.

The BGH Directors may appoint a person who is willing to act as a director, either to fill a vacancy or as an addition to the existing number of BGH Directors. BGH may by ordinary resolution appoint any person to office as a BGH Director.

Subject to the provisions of the Companies Act and regulations made thereunder, the BGH Directors may appoint one or more of their body to hold an executive office with BGH for such term and on such other terms and conditions as the BGH Directors think fit. The BGH Directors may revoke or terminate an appointment at any time, without prejudice to a claim for damages for breach of the contract of service between the BGH Director and BGH or otherwise.

No person other than a BGH Director retiring (by rotation or otherwise) may be appointed or reappointed as a BGH Director at a general meeting unless:

- he or she is recommended by the BGH Directors; or

- not less than seven nor more than 42 days before the date fixed for the meeting, notice has been given to BGH by a BGH Shareholder (other than the person to be proposed) qualified to vote at the meeting of the intention to propose that person for appointment or reappointment.

Election, Re-election, Removal and Retirement of BGH Directors

A BGH Director is not required to hold any BGH Shares in the capital of BGH.

BGH may, by ordinary resolution of which special notice is given in accordance with the Companies Act and regulations made thereunder, remove any BGH Director before the expiration of his or her period of office in accordance with the Companies Act, and elect another person in place of a BGH Director so removed from office. Such removal may take place notwithstanding any provision of the Articles or of any agreement between BGH and such BGH Director, but is without prejudice to any claim the BGH Director may have for damages for breach of any such agreement.

Subject to the Articles, at each annual general meeting not less than one-third of the BGH Directors who are subject to retirement by rotation shall retire from office provided that if there are fewer than three directors who are subject to retirement by rotation, at least one shall retire from office.

If any one or more BGH Directors were last appointed or reappointed three years or more prior to the meeting, were last appointed or reappointed at the third immediately preceding annual general meeting, or at the time of the meeting will have served more than eight years as a non-executive director of BGH (excluding as the chairman of the BGH Directors), he or she or they shall retire from office and shall be counted in obtaining the number required to retire at the meeting, provided that the number of directors required to retire shall be increased to the extent necessary to comply with the Articles.

Subject to the provisions of the Articles, the BGH Directors to retire by rotation at an annual general meeting include, so far as necessary to obtain the number required, first, a BGH Director who wishes to retire and not offer himself or herself for reappointment, and, second, those BGH Directors who have been longest in office since their last appointment or reappointment.

A BGH Director who retires at an annual general meeting (whether by rotation or otherwise) may, if willing to act, be reappointed. If he or she is not reappointed or deemed reappointed, he or she may retain office until the meeting appoints someone in his or her place or, if it does not do so, until the end of the meeting.

Powers of the BGH Board

Subject to the Articles and to directions given by special resolution of BGH, the business and affairs of BGH shall be managed by the BGH Directors who may exercise all the powers of BGH whether relating to the management of the business or not. No alteration of the Articles and no direction given by BGH shall invalidate a prior act of the BGH Directors which would have been valid if the alteration had not been made or the direction had not been given. The provisions of the Articles giving specific powers to the BGH Directors do not limit the general powers given to the BGH Directors.

The BGH Board may delegate to one of the BGH Directors holding executive office any of their powers, authorities and discretions for such time and on such terms and conditions as they think fit. In particular, without limitation, the BGH Board may grant the power to sub-delegate, and may retain or exclude the right of the BGH Board to exercise the delegated powers, authorities or discretions collaterally with the BGH Director. The BGH Board may at any time revoke the delegation or alter such terms and conditions. The BGH Board may delegate any of their powers, authorities and discretions, for such time and on such terms and conditions as they think fit, to a committee, the majority of which consists of BGH Directors.

The BGH Board may establish any local or divisional boards or agencies for managing any of the affairs of BGH in any specified locality, either in the United Kingdom or elsewhere, and may appoint any persons to be members of such local or divisional board, or any managers or agents, and may fix their remuneration. The BGH Board may delegate to any local or divisional board, manager or agent so appointed any of their powers, authorities and discretions (with power to sub-delegate) and may authorise any persons to be members for the time being of any such local or divisional board, or any of them, to fill any vacancies and to act notwithstanding vacancies; and any such appointment or delegation may be made for such time, on such terms and subject to such conditions as the BGH Board may think fit.

The BGH Board may by power of attorney or otherwise appoint a person to be the agent of BGH and may delegate to that person any of its powers, authorities and discretions for such purposes, for such time and on such terms and conditions as they think fit.

Proceedings of BGH Directors

Subject to the Articles, the BGH Board may meet for the despatch of business, adjourn and otherwise regulate its proceedings as they think fit. The quorum necessary for the transaction of business may be decided by the BGH Board and until otherwise decided is two BGH Directors present in person or by alternate director.

The BGH Board may appoint one of their body as chairman to preside at every board meeting at which he or she is present and one or more deputy chairman or chairmen and decide the period for which he or she is or they are to hold office (and may at any time remove him or her or them from office). If no chairman or deputy chairman or chairmen is elected, or if at a meeting neither the chairman nor a deputy chairman or chairmen is present within five minutes of the time fixed for the start of the meeting, the BGH Directors and alternate BGH Directors present shall choose one of their number to be chairman. In case of an equality of votes at a meeting the chairman has a second or casting vote.

BGH Directors' Remuneration

The BGH Directors' fees are determined by the BGH Directors from time to time except that they may not exceed £750,000 per annum in aggregate or such higher amounts as may from time to time be determined by ordinary resolution of BGH. The BGH Board may arrange for part of such fee payable to a BGH Director to be provided in the form of fully-paid BGH Shares.

The salary or other remuneration of a BGH Director appointed to hold employment or executive office in accordance with the Articles may be a fixed sum of money, or wholly or in part governed by business done or profits made, or as otherwise decided by the BGH Directors, and may be in addition to or instead of a fee payable to him or her for his or her services as BGH Director pursuant to the Articles.

BGH Directors' Indemnification

Subject to the provisions of the Companies Act and provisions made thereunder, BGH may:

(a) indemnify to any extent any person who is or was a director, or a director of any associated company, directly or indirectly (including by funding any expenditure incurred or to be incurred by him or her) against any loss or liability, whether in connection with any negligence, default, breach of duty or breach of trust by him or her or otherwise, in relation to BGH or any associated company;

(b) indemnify to any extent any person who is or was a director of an associated company that is a trustee of an occupational pension scheme, directly or indirectly (including by funding any expenditure incurred or to be incurred by him) against any liability incurred by him or her in connection with the company's activities as trustee of an occupational pension scheme.

Where a person is indemnified against any liability in accordance with the Articles, such indemnity may extend to all costs, charges, losses, expenses and liabilities incurred by him or her in relation thereto.

BGH Directors' Interests

A BGH Director may be or become a director or other officer of or otherwise interested in any company promoted by BGH or in which BGH may be interested as a holder of such company shares or otherwise and no such BGH Director shall be accountable to BGH for any remuneration or other benefits received by him or her as a director or officer of or from his or her interests in such other company unless BGH otherwise directs.

A BGH Director who has directly or indirectly an interest in a transaction entered into or proposed to be entered into by BGH or by a subsidiary of BGH which conflicts with the interests of BGH and of which he or she has actual knowledge shall disclose to BGH (by notice to the BGH Directors) the nature and extent of his or her interest. Subject thereto and the provisions of the Companies Act and regulations made thereunder, any such BGH Director shall not be liable to account to BGH for any profit or gain realised by him or her on such transactions.

A notice in writing given to BGH by a BGH Director that he or she is to be regarded as interested in a transaction with a specified person is sufficient disclosure of his or her interest in any such transaction entered into after the notice is given. Subject to the Articles, a BGH Director may not vote in respect of certain transactions and if he or she does so vote his or her vote shall not be counted and he or she shall not be capable of being counted towards the quorum at any meeting of the BGH Directors at which any such transaction shall come before the BGH Directors for consideration.

Subject to the provisions of the Companies Act and regulations made thereunder, a BGH Director may act by himself or herself or his or her firm in a professional capacity for BGH and he or she or his or her firm shall be entitled to remuneration for professional services as if he or she were not a BGH Director.

Restrictions on Voting

Except as provided below, a BGH Director may not vote in respect of any contract, arrangement or any other proposal in which he or she, or a person connected to him or her, is interested. Any vote of a BGH Director in respect of a matter where he or she is not entitled to vote shall be disregarded.

A BGH Director is entitled to vote and be counted in the quorum in respect of any resolution concerning, *inter alia,* any contract, transaction or arrangement, or any other proposal:

- in which he or she has an interest, of which he or she is not aware, or which cannot be reasonably be regarded as likely to give rise to a conflict of interest;
- in which he or she has an interest only by virtue of interests in shares, debentures or other securities or otherwise in or through BGH;
- which involves the giving of a guarantee, security or indemnity in respect of a debt or obligation of BGH or any of its subsidiary undertakings for which he himself or she herself has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security;
- concerning an offer of securities by BGH or any of its subsidiary undertakings in which he or she is or may be entitled to participate as a holder of securities or as an underwriter or sub-underwriter;
- concerning any other body corporate in which he or she is interested, provided that he or she and any connected persons do not own or have a beneficial interest in 1%, or more of any class of the equity share capital or the voting rights of such body corporate;
- relating to an arrangement for the benefit of employees of BGH or any of its subsidiary undertakings which does not award him or her any privilege or benefit not generally awarded to the employees to whom such arrangement relates;
- concerning the purchase or maintenance of insurance policy for the benefit of BGH Directors;
- concerning the giving of indemnities in favour of the BGH Directors;
- concerning the funding of expenditure by any BGH Director or BGH Directors (i) on defending criminal, civil or regulatory proceedings or actions against him, her or them, (ii) in connection with an application to the court for relief, (iii) on defending him, her or them in any regulator investigations, or (iv) incurred doing anything to enable him, her or them to avoid incurring such expenditure; or
- in respect of which his or her interest, or the interest of BGH Directors generally, has been authorised by ordinary resolution at a general meeting of BGH Shareholders.

Borrowing Powers

The BGH Board may exercise all the powers of BGH to borrow money and to mortgage or charge its undertaking, property and assets both present and future and uncalled capital, or any part thereof, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of BGH or of any third party.

Service of Notices, Documents and Information on BGH Shareholders

Any notice, document or information may be given, sent or supplied by BGH to any BGH Shareholder: (i) personally; (ii) by sending it by post in a pre-paid envelope addressed to the BGH Shareholder at his registered address or to the UK address that the BGH Shareholder has provided to BGH; (iii) by sending it in electronic form to the electronic address specified for the purpose by the BGH Shareholder (generally or specifically), provided that the BGH Shareholder has agreed (generally or specifically) that the notice, document or information may be sent or supplied in that form (and has not revoked that agreement); or (iv) subject to the provisions of the Companies Act, by making it available on a website and notifying the BGH Shareholder that the notice, document or information is available on that website, provided that certain conditions have been satisfied, including that the BGH Shareholder has been asked by BGH to agree to BGH sending notices, documents and information by making them available on a website and has either agreed (generally or specifically) or has not responded to BGH's request.

Winding Up

On a voluntary winding up of BGH the liquidator may, on obtaining any sanction required by law, divide among BGH Shareholders (excluding any BGH Shareholder holding shares as treasury shares) in kind the whole or any part of the assets of BGH, whether or not the assets consist of property of one kind or of different kinds, and vest the whole or any part of the assets in trustees upon such trusts for the benefit of BGH Shareholders as he or she, with the like sanction, shall determine. For this purpose the liquidator may set the value he or she deems fair on a class or classes of property, and may determine on the basis of that valuation and in accordance with the then existing rights of BGH Shareholders how the division is to be carried out between BGH Shareholders or classes of BGH Shareholders. The liquidator may not, however, distribute to a BGH Shareholder without his or her consent an asset to which there is attached a liability or potential liability for the owner.

PART XX

COMPARISON OF SHAREHOLDER RIGHTS IN THE BANK AND SHAREHOLDER RIGHTS IN BGH

BGH is incorporated in England and Wales, and the Bank is incorporated in Georgia. Consequently, corporate governance rules and practices applicable to, and the rights of a holder of BGH Offer Shares will differ from corporate governance rules and practices applicable to, and the rights of a holder of Bank Shares due to the differences between the respective laws and regulations of England and Wales and Georgia and the Articles of BGH and the Charter of the Bank.

The following is a summary of certain provisions of the Georgia Companies Law and the Charter of the Bank that differ from the Companies Act and regulations made thereunder, the Articles of BGH and other relevant laws and regulations. GDR Holders currently enjoy indirect shareholder rights in the Bank via the Bank Shares held by the Depository in accordance with the Deposit Agreement and the terms and conditions of the GDRs. The summary below is therefore relevant for GDR Holders and, where applicable, a comparison has been made between the provisions that apply to GDR Holders and those that will apply to holders of BGH Offer Shares. The summary does not purport to be a complete statement of the respective rights of BGH Shareholders or GDR Holders and Bank Shareholders.

Provisions Applicable to Existing Holders	Provisions Applicable to holders of BGH Offer Shares
Authorised and Issued Share Capital	
As at the date of this Prospectus the Bank's issued share capital consists of 32,877,547 ordinary registered shares with a nominal value of GEL 1.00. The Bank's authorised share capital consists of 43,308,125 shares with a nominal value of GEL 1.00. The Bank may increase the issued share capital and the authorised but unissued share capital by resolution of the GMS. In the latter case, the GMS authorises the Bank Management Board to issue new share capital with the approval of the Bank Supervisory Board. Such resolution of the GMS must specify the number and class of shares that may be issued and the period, not exceeding five years, during which the authorisation will remain valid.	Upon Admission, BGH's issued share capital is expected to be 36,512,553 BGH Offer Shares and the Redeemable Shares (assuming full acceptance of the Offer and the completion of the Debt Conversion in full). The issued share capital will also include any Class A Shares issued in connection with the Reduction of Capital. The concept of authorised share capital no longer exists in relation to any company incorporated in England and Wales, including BGH. The BGH Directors cannot issue new BGH Shares unless they are authorised to do so at a general meeting approved by a simple majority vote (i.e. more than 50% of the total votes cast at the meeting) or by the Articles.
Reduction in Share Capital	
Pursuant to the Charter, the GMS is authorised to adopt a decision on reduction of share capital in cases envisaged by applicable law. The Bank may not reduce its share capital through a redemption of Bank Shares without (i) the prior written consent of the NBG and (ii) making amendments to the Charter to the extent required.	Reductions of share capital of BGH can take place in any way but must be approved by a special resolution (i.e. at least 75% of the votes cast at the meeting) of BGH Shareholders at a general meeting. The reduction must also be confirmed by the UK Court, which will consider the interests of creditors. The reduction must be advertised in a national newspaper seven clear days before the final hearing date where the court confirms the reduction. The reduction of capital takes effect on the registration of the court order obtained with the UK registrar of companies.

Provisions Applicable to Existing Holders	Provisions Applicable to holders of BGH Offer Shares
Share Buy-Back	
The Bank may purchase and subsequently on-sell its issued shares (treasury shares), the number of which at any given moment shall not exceed 10% of all issued shares. A Bank Shareholder may demand that the Bank purchases its shares if at the GMS the Bank Shareholder voted against a resolution for reorganisation (i.e. merger, division, transformation) of the Bank or the resolution "materially infringing" its rights. GDRs: A buy back of GDRs would involve a consideration of certain notification and similar issues under the UK market conduct rules. These rules would be equally applicable to buy backs of shares in BGH.	A share buy-back by BGH can be made out of distributable profits or the proceeds of an issue of BGH Shares made for such purpose. The buy-back must be approved by BGH Shareholders, either by simple majority (i.e. more than 50% of the total votes cast at the meeting) for a market purchase or a majority of 75% of the total votes cast at the meeting for an off-market purchase. The UK Listing Rules and the UK Disclosure and Transparency Rules impose additional requirements on share buy-backs by listed companies. In particular, the UK Listing Rules set out limitations on price and provisions relating to the method of purchase. Further, BGH will need to send a circular to BGH Shareholders with the notice of meeting to propose a resolution to authorise a purchase of BGH Shares.
Amending the Articles of Association	
Amendments to the Charter require the affirmative votes of more than 75% of those present or represented at the GMS.	Amendments to articles of association require a special resolution of holders of BGH Shareholders at a general meeting. Under the UK Listing Rules, BGH must send to BGH Shareholders a circular including (i) an explanation of the effect of the proposed amendments to the articles of association; and (ii) either the full terms of the proposed amendments, or a statement that the full terms will be available for inspection prior to and during the meeting.
Pre-emptive Rights	
Under the Charter, Bank Shareholders have pre-emption rights to subscribe for Bank Shares upon the issue of new Bank Shares in proportion to the aggregate amount of Bank Shares they hold. Pursuant to the Charter, a pre-emption right does not apply to Bank Shares issued out of a part of authorised but unissued capital designated by the GMS for employee share ownership purposes. Pre-emption rights may be restricted or excluded by resolution of the GMS approved by more than 75% of those present (in person or proxy) and voting at the GMS. The Bank Shareholders are entitled to exercise their pre-emption rights in relation to newly issued shares, for which the pre-emption rights have not been excluded at the GMS. Those Bank Shareholders willing to exercise such rights, shall acquire the shares within 20 days from the date of the relevant notification by the Bank.	English law and the UK Listing Rules will govern pre-emption rights in relation to BGH. Broadly, BGH may not, without the approval of BGH Shareholders, allot "equity securities" for cash unless it also makes an offer to all the then BGH Shareholders on the same or more favourable terms as those offered to the public. Breach of this provision renders BGH, and every officer who knowingly authorised or permitted the breach, jointly and severally liable to compensate any person to whom the offer should have been made for losses suffered as a result of the breach. BGH may disapply such statutory pre-emption by a special resolution of BGH Shareholders at general meeting. Such disapplication must be subject to a time limit on the BGH Directors' general authority to allot BGH Shares (for cash or otherwise). The UK listing rules impose similar pre-emption requirements.

Provisions Applicable to Existing Holders	Provisions Applicable to holders of BGH Offer Shares
Dividends	
The distribution of profits and payment of a dividend by the Bank are subject to compliance with the law and the Charter. Dividends may in principle only be paid out (i) after adoption of annual accounts which show that the distribution of dividends is permissible and (ii) out of net profits of the Bank. The Bank Management Board prepares a proposal on the distribution of dividends which must be approved by the Bank Supervisory Board. If the Bank Supervisory Board and the Bank Management Board do not agree on the proposed dividend, the proposal of both boards shall be submitted to the GMS for approval. GDRs: Any dividends payable to GDR holders are payable in US Dollars by the Depositary, less applicable fees, taxes and expenses under the Deposit Agreement.	Under English law, BGH may by ordinary resolution declare a dividend to be paid to BGH Shareholders according to their respective rights and interests, but no dividend may exceed the amount recommended by the BGH Directors. The BGH Directors may declare and pay interim dividends (including, without limitation, a dividend payable at a fixed rate) as appear to it to be justified by the profits of BGH available for distribution. No interim dividend shall be declared or paid on BGH Shares which do not confer preferred rights with regard to dividend if, at the time of declaration, any dividend on BGH Shares which do confer a right to a preferred dividend is in arrears. Except as otherwise provided by the rights attached to BGH Shares, dividends may be declared or paid in any currency.
Notice of General Meetings	
The time, place and the agenda of the GMS is published in printed media at least 20 days prior to the date of such GMS. Holders of Bank Shares holding at least 0.5% of the Bank Shares should also be notified about the GMS via registered mail.	English law requires that BGH gives BGH Shareholders at least 21 clear days' notice of an annual general meeting and at least 14 clear days' notice of other general meetings, provided that it has been authorised by BGH Shareholders to do so and certain other requirements are satisfied. However, the Corporate Governance Code recommends that the notice and related papers be sent to BGH Shareholders at least 20 working days before the meeting. General meetings (other than annual general meetings) can be held on short notice with the consent of BGH Shareholders holding not less that 95% of the total voting rights of BGH Shareholders who have that right. Annual general meetings can only be held on short notice with the consent of all BGH Shareholders.
Convening of General Meetings	
Annual GMSs are called by the Bank Supervisory Board each year within two months of completion of the external audit of the Bank's books, and in no case later than six months after the end of the prior fiscal year. An EGM may be called by the Bank Supervisory Board, the Bank Management Board or by written request of the Bank Shareholder(s) holding at least 5% of Bank Shares. The Bank Shareholder(s) may request convening of a GMS only if at least one month has elapsed since the date of the prior GMS. If the Bank Shareholder(s) holding at least 5% of Bank Shares request that an EGM is convened and the only item on the agenda is the dismissal of the Bank Management Board member(s), the Bank Supervisory Board must call the meeting within 20 days, otherwise the holders of Bank Shares themselves may convene the meeting.	The BGH Directors may, whenever they think fit, call a general meeting. The BGH Directors are also required to call a general meeting once BGH has received requests from BGH Shareholders representing at least 5% of BGH Shares (disregarding any paid-up capital held as treasury shares) to do so in accordance with the Companies Act.

Provisions Applicable to Existing Holders	Provisions Applicable to holders of BGH Offer Shares
It is not necessary to convene a GMS if a holder of more than 75% of the Bank Shares makes a decision regarding the issue on the agenda. Such decision is equivalent to the minutes or resolutions of a GMS. In such circumstances, the other holders of Bank Shares would simply be notified about such decision.	
Voting Rights	
Bank Shareholders have the right to attend and vote at GMSs. Each Bank Shareholders has one vote for each Bank Share it holds. Bank Shareholders have the right to appoint a proxy by a notarised power of attorney to attend and vote at GMS on the Bank Shareholder's behalf. Resolutions are voted by poll. GDRs: GDR Holders have the right to instruct the Depositary to exercise voting rights with respect to the Bank Shares underlying the GDRs in accordance with the Deposit Agreement and the terms and conditions of the GDRs. Acting on such instructions, the Depositary causes the Bank Shares to be voted in accordance with the voting rights attached to the Bank Shares described above.	BGH Shareholders have the right to attend and vote at general meetings of BGH. At a general meeting every BGH Shareholder who is present has one vote on a show of hands; on a vote on a poll BGH, every BGH Shareholder has one vote for each share it holds. The Articles provide that no holder of BGH Shares is entitled to vote at a general meeting if any calls or other sums are payable by it to BGH. Holders of BGH Shares have the right to appoint a proxy, and corporations have the right to appoint a corporate representative to attend and vote at general meetings on the member's behalf. Resolutions are voted on a show of hands unless a poll is demanded by (i) the chairman of the meeting, (ii) not less than five BGH Shareholders entitled to vote on the resolution or (iii) BGH Shareholders holding at least one-tenth of the voting rights of all the BGH Shares being entitled to vote on the resolution. In addition a poll can be demanded by a BGH Shareholders holding BGH Shares on which they are entitled to vote on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all BGH Shares being entitled to vote on the resolution.
Meetings of Shareholders	
The GMS is presided over by the chairman of the Bank Supervisory Board or, in his or her absence, by the deputy chairman or any other member of the Bank Supervisory Board. In the absence of members of the Bank Supervisory Board, the meeting is presided over by the CEO. The minutes of the meeting are drawn up and certified by a notary.	The chairman (if any) of the BGH Directors presides as chairman of general meetings, failing which the BGH Directors present at the meeting may elect one of their number to be the chairman of the general meeting. If no BGH Directors are present or if no BGH Director is willing to act as chairman, the BGH Shareholders present at the meeting may elect one of their number to be chairman of the meeting.
The GMS is quorate if it is attended by the holders of at least half of the Voting Shares (or their representatives). If there is no quorum, a new GMS shall be convened with the same agenda and within the period determined by the Bank Supervisory Board in accordance with the procedures set by the law and the Charter. The new GMS quorum is satisfied if holders of at least 25.0% of the Voting Shares are present or represented. If there is no quorum at this new GMS a further new GMS shall be convened and such further GMS will be quorate irrespective of the number of attending and voting holders of Bank Shares or their representatives.	The quorum for general meetings is two persons entitled to vote on the business to be transacted, each being a BGH Shareholder, proxy for a BGH Shareholders or corporate representative of a BGH Shareholder. If a quorum is not present within fifteen minutes (or such longer time not exceeding 45 minutes as the chairman decides to wait) after the time fixed for the start of the meeting or if there is no longer a quorum present at any time during the meeting, the meeting, if convened by or on the requisition of BGH Shareholders, is dissolved. In any other case the meeting stands adjourned to such other day (being not less than ten days later) and at such other time and/or place as the chairman (or, in default,

Provisions Applicable to Existing Holders	Provisions Applicable to holders of BGH Offer Shares
	the BGH Board) decides. If at the adjourned meeting a quorum is not present within fifteen minutes after the time fixed for the start of the meeting, the meeting is dissolved.
Resolutions of General Meetings	
Most of the resolutions at GMS are adopted by a simple majority of the votes cast, however, certain issues such as amendments to the Charter, merger, division, liquidation and transformation of the Bank, as well as cancellation of pre-emptive rights require a majority of more than 75% of votes present or represented at the GMS.	Under English law, there is a distinction between ordinary resolutions (which require a simple majority, being more than 50% of the total votes cast at meeting) and special resolutions (which relate to certain issues, including, among others, amendments to the articles of association, change of name, disapplication of pre-emption rights, purchase of own shares, reduction of share capital and opting-in and opting-out of takeovers) which require a majority of 75% of the total votes cast at the meeting).
Directors' Appointment and Removal	
The Bank Supervisory Board members are elected by cumulative voting, however, they can be dismissed by a simple majority of the votes cast at the GMS.	Under English law, the appointment and removal of BGH Directors is determined by the Articles, subject to certain statutory requirements and regulatory recommendations. In line with the Companies Act and regulations made thereunder, the Articles provide for the removal of any BGH Director by an ordinary resolution of which a special notice had been given.
Significant Transactions/Related Party Transactions	
The Georgian Securities Act regulates interested party transactions and sets various approval and transparency requirements. These requirements (except the requirements to inform the NBG and to publish information) do not apply to transactions concluded between: (i) a company and its 100% owned subsidiary; and (ii) a company and its sole shareholder. If the Bank enters into a transaction and a member of its governing body or a holder of 20% or more of the Voting Shares or his or her related person has a relationship to the other party to such transaction or receives benefit from it, such a person will be regarded as "an interested party" for the purposes of the Georgian Securities Act. Some examples of a relationship to the other party are: directly or indirectly holding 20% or more in the capital of the legal person or being a member of the governing body of the legal person. The interested party must notify in writing the Bank Supervisory Board or the GMS (depending on the value of the transaction) of its interest in the transaction to be concluded and the relevant body, the Bank Supervisory Board or the GMS, shall approve the transaction. The interested party may not vote in relation to the transaction in which it has an interest. The Bank must provide information on interested party transactions to the NBG and publish information about such transactions (including those concluded with wholly-owned subsidiaries and a sole shareholder) in accordance with the NBG rules.	Significant transactions and related party transactions undertaken by BGH will be governed by the UK Listing Rules. In relation to significant transactions, the UK Listing Rules set out "class tests" for UK listed companies. A transaction is classified according to its size by reference to a number of different percentage ratios. The results of the class tests are used to categorise the transaction as a Class 1, Class 2 or Class 3 transaction or a reverse takeover and the category of transaction then determines what procedural requirements must be complied with. In particular, a Class 1 transaction or a reverse takeover requires prior shareholder approval by a simple majority (i.e. more than 50% of the total votes cast at the general meeting). A Class 1 transaction also require BGH to send an explanatory circular to holders of BGH Shares. The UK Listing Rules also set out certain procedural requirements in respect of related party transactions, including shareholder approval, where a related party transaction exceeds a certain value on the basis of the class tests. These rules concerning related party transactions will apply to BGH.

Certain banking regulations further regulate interested/related party transactions of commercial banks. According to NBG Order No. 116, dated 4 May 2001 (**"Order 116"**), the Bank is not authorised to conduct any operation with any of its administrators, affiliated companies or related persons (as such terms are defined in Order 116), unless such operation is approved by the Bank Supervisory Board. The definition of "administrator" includes members of the Bank Supervisory Board, the Bank Management Board, as well as any person who independently or with any other person(s) is authorised to incur obligations on the Bank's behalf. No administrator or person related to the Bank or to the administrator is permitted to participate in any discussion concerning operations with related parties if he or she anticipates any direct or indirect gain from such transaction.

The Banking Law and Order 116 contain various limitations related to provision of loans/services to administrators, controlling persons, affiliated companies or related persons.

Certain major transactions require the approval of the GMS or Bank Supervisory Board.

Among transactions to be approved by the GMS are:

- the merger, division or transformation of the Bank into another legal entity; and
- acquisition, sale, transfer, exchange (or such related transactions) or encumbrance of Bank's assets, the value of which is more than 25% of the equity value of the Bank.

Certain transactions may be carried out only with the approval of the Bank Supervisory Board, including, without limitation:

- the acquisition and disposal of the Bank's interest in other companies if the amount of such interest exceeds 50% of the total equity of such company or the volume of the transaction exceeds 2.5% of the Bank's equity value as of the end of the previous calendar month;
- the acquisition, transfer and encumbrance of real estate and related ownership rights, if such transaction falls outside the scope of routine economic activity of the Bank and the volume of such transaction exceeds 2.5% of the Bank's equity value as of the end of the previous calendar month; and
- borrowing funds in excess of 2.5% of the Bank's equity value as of the end of the previous calendar month.

Provisions Applicable to Existing Holders	Provisions Applicable to holders of BGH Offer Shares
Shareholders' Rights of Inspection and Receipt of Information	
The annual financial statements and audit results of the Bank are published in the press. Each Bank Shareholder may request explanations from the Bank Supervisory Board and the Bank Management Board with respect to the items on the GMS agenda. The holders of 5% or more of Bank Shares may demand to review the copies of the existing and proposed agreements of the Bank, and to demand the special inspection of the financial statements and transactions of the Bank if they believe that there are certain violations.	The accounting records shall be kept at the office or, subject to the provisions of the Companies Act and regulations made thereunder, at another place decided by the BGH Board and shall be available at all times for the inspection of the BGH Directors and other officers. No BGH Shareholder (other than a BGH Director or other officer) has the right to inspect an accounting record or other document except if that right is conferred by the Companies Act or he or she is authorised by the BGH Directors or by an ordinary resolution of BGH.
Liquidation Rights	
If the Bank is liquidated, the Bank Shareholders will receive their pro rata share of the assets remaining after the payment of the claims of the creditors.	On a voluntary winding up of BGH the liquidator may, on obtaining any sanction required by law, divide among BGH Shareholders (excluding any holder of BGH Shares holding shares as treasury shares) in kind the whole or any part of the assets of BGH, whether or not the assets consist of property of one kind or of different kinds, and vest the whole or any part of the assets in trustees upon such trusts for the benefit of BGH Shareholders as the liquidator, with the like sanction, shall determine. For this purpose the liquidator may set the value he or she deems fair on a class or classes of property, and may determine on the basis of that valuation and in accordance with the then existing rights of BGH Shareholders how the division is to be carried out between BGH Shareholders or classes of BGH Shareholders. The liquidator may not, however, distribute to BGH Shareholders without his or her consent an asset to which there is attached a liability or potential liability for the owner.
Disclosure of Information	
Under Georgian law, the Bank is required to submit annual external audit reports to the NBG and to publish annual financial statements and audit results in the press. The Bank must also submit to the NBG and to the GSE the annual, semi-annual and current reports. GDRs: The Bank currently has obligations relating to disclosure of information under the UK Listing Rules and the UK Disclosure and Transparency Rules by virtue of the listing of its GDRs on the London Stock Exchange.	BGH will have obligations relating to disclosure of information which are governed by the UK Listing Rules and the UK Disclosure and Transparency Rules. Under the UK Disclosure and Transparency Rules, subject to certain exceptions, BGH is obliged to notify the market as soon as possible of any inside information which directly concerns it.
Insider Dealing and Market Abuse Regimes	
Under Georgian law, an insider or a person obtaining the information from the insider is prohibited from (directly or indirectly, for his or her or other person's benefit) purchasing or selling securities of the Bank he or she knows insider information about; divulging the insider information to a third party; and advising or instructing the third parties with respect to purchase or sale of securities based on insider information.	The rules on insider dealing set out in the UK Criminal Justice Act 1993 and the rules on market abuse set out in FSMA will apply to BGH.

Provisions Applicable to Existing Holders	Provisions Applicable to holders of BGH Offer Shares
GDRs: The rules on insider dealing set out in the UK Criminal Justice Act 1993 and the rules on market abuse set out in FSMA currently apply to the Bank by virtue of the listing of its GDRs on the London Stock Exchange.	
Notification of Shareholders' Voting Rights	
If a person intends to acquire Bank Shares and/or GDRs and as a result of such acquisition, the shareholding of this person or its beneficial owner will exceed 10%, 25% or 50% of the share capital of the Bank, such person must submit a declaration to and obtain a prior approval from the NBG. Any person (natural or legal), related persons or a group of persons who acquires more than 10% of the voting rights in the Bank, or who otherwise obtains control of the Bank, must give written notice to the Bank and the stock exchange where the securities are traded within 10 business days of the acquisition of the voting rights or obtaining control. In addition, any person that, directly or indirectly, beneficially owns more than 10% of the Bank Shares must submit a declaration to the NBG in April of each calendar year based on the amount of its shareholdings as of 31 December of the preceding calendar year. GDRs: Despite the listing on the London Stock Exchange, the rules relating to the notification of voting rights to the issuer and to the market under the UK Disclosure and Transparency Rules do not apply to the GDRs, however, the voting restrictions and disclosure obligations described above form terms of the GDRs.	The obligation to notify voting rights in relation to BGH will be governed by the UK Disclosure and Transparency Rules, under which a person who is a shareholder of a UK company with shares admitted to trading on the London Stock Exchange is required to notify that company as soon as his or her voting rights reach, exceed or fall below 3% and each whole percentage change thereafter up to 100%. Voting rights include those held as a shareholder or otherwise through a direct or indirect holding of financial instruments. Financial instruments for these purposes include certain holdings of financial instruments, including transferable securities and options, futures, swaps, forward rate agreements and any other derivative contracts that give the holder the right to acquire shares with voting rights attached. Consequently all disclosable interests must be notified to BGH within two trading days. Any information disclosed to BGH in accordance with the notification of major shareholdings provisions must be disclosed by BGH to a Regulatory Information Service as soon as possible and, in any event, by not later than the end of the trading day following receipt of the information. In addition, pursuant to the Articles, BGH Shareholders are deemed to acknowledge that BGH may from time to time directly or indirectly hold interests in certain regulated entities and the laws and regulations of the jurisdictions of those entities may impose restrictions and requirements on BGH Shareholders. Pursuant to the Articles, no person may directly or indirectly acquire (through a transaction or series of transactions), hold and/or otherwise have the direct or indirect ability to exercise voting rights in respect of, interests in BGH Shares which would result in such person directly or indirectly, alone or together with any of its related person(s), having a direct or indirect interest in shares of or ability to exercise voting rights over at least 10 per cent., 25 per cent. or 50 per cent. (or such other percentages as the relevant regulatory authorities may determine from time to time) in any group company that is licensed or supervised by certain regulatory authorities without the prior satisfaction of, or timely compliance with, certain applicable regulatory requirements.

Provisions Applicable to Existing Holders	Provisions Applicable to holders of BGH Offer Shares
	If a person acquires or otherwise holds such an interest they shall be required to: • disclose to BGH the identity of the ultimate beneficial owner(s) of such interests; and • certify to BGH that such person(s) (or such ultimate beneficial owner(s)) has/ have complied with all regulatory requirements in respect of the acquisition and/or holding (as applicable) of such interests. If BGH knows or has reasonable cause to believe that a person has failed to comply with the above requirements BGH may take steps requiring such person to make the appropriate disclosures and / or temporarily disenfranchising that persons voting rights in respect of their BGH Shares.
Compulsory Acquisition of Minority Shareholdings	
Pursuant to article 53 of the Law on Entrepreneurs, a shareholder who holds more than 95% of a company's voting shares has the right to buy out the other shareholders at a "fair price" (the **"Squeeze-out"**). The buyer must apply to the court for the approval of the Squeeze-out, the determination of a fair price and for setting the date of the Squeeze-out.	The compulsory acquisition provisions in the Companies Act and regulations made thereunder allow an offeror to acquire 100% of the share capital of a company in a takeover in certain circumstances.
The court appoints an auditor or brokerage company to determine the fair price of the shares. The auditor or the brokerage company shall compile a Squeeze-out report, which describes the terms of the Squeeze-out, the method used for determining the fair price, and the price determined by using such method. The court reviews the application regarding Squeeze-out and decides whether to approve the Squeeze-out within one month of admitting the application from the purchaser of the shares. The court decision determines the fair price of the shares and the date for the Squeeze-out. In determining the fair price, the court shall take into consideration: (i) the market price of the relevant shares; (ii) possible future profits of the company; (iii) assets and liabilities of the company.	The Act provides that where a person (the offeror) makes a takeover offer to acquire all of the shares (or all of the shares of any class) in a company (other than any shares already held by the offeror at the date of the offer), if the offeror has by virtue of acceptances of the offer acquired or unconditionally contracted to acquire (i) not less than 90% in value of the shares (or class of shares) to which the offer relates and (ii) if the shares to which the offer relates are voting shares, not less than 90% of the voting rights carried by those shares, the offeror may give notice to the holder of any of the shares (or class of shares) to which the offer relates which the offeror has not acquired or unconditionally contracted to acquire that he or she desires to acquire those shares. The offeror is entitled and bound to acquire the shares to which the notice relates on the terms of the original takeover. A holder of any shares who receives a notice of compulsory acquisition may, within six weeks from the date of the notice, apply to the court for an order that the offeror not be entitled and bound to acquire the holder's shares or that the offeror purchase the holder's shares on terms different to those of the original takeover offer.

Provisions Applicable to Existing Holders	Provisions Applicable to holders of BGH Offer Shares
	Similarly, where before the end of the period within which the takeover offer can be accepted, the offeror has by virtue of acceptances of the offer acquired or unconditionally contracted to acquire not less than 90% in value of all of the shares (or all of the shares of a particular class) of a company and not less than 90% of the voting rights of a company, the holder of any shares (or class of shares) to which the offer relates who has not accepted the offer may, by written notice to the offeror, require the offeror to acquire the holder's shares. The offeror shall be entitled and bound to acquire the holder's shares on the terms of the original takeover offer or on such other terms as may be agreed. Where a holder gives the offeror a notice of compulsory acquisition, each of the offeror and the holder of the shares is entitled to apply to the court for an order that the terms on which the offeror is entitled and bound to acquire the holder's shares shall be such as the court thinks fit.
Takeover Offers	
Georgian law does not regulate takeover offers except for the procedures related to tender offers.	Takeover offers in relation to BGH will be governed by English law, in particular the Companies Act and the Takeover Code. All such takeover offers are regulated by the Panel.
Mandatory Offer	
According to article 53^2 of the Law on Entrepreneurs, if a shareholder acquires more than 50% of the voting shares of a company, it must make a tender offer to buy out all the remaining shares at a "fair price" within 45 days from the moment of such acquisition, or bring the number of shares under its control below the 50% threshold by selling a portion of its shares. Under the Law on Entrepreneurs, the "fair price" is determined by an auditor, or a brokerage company and it shall not be less than the highest price paid by the shareholder (making mandatory tender offer) for the company's shares over the last six months. The mandatory tender offer must be in force for at least two months and during that two-month period, the offeror would be prohibited from purchasing the shares of the target company. The mandatory tender offer rules do not apply if a shareholder acquires more than 50% of the voting shares of a company pursuant to a voluntary tender offer carried out in accordance with the Law on Securities Market in which it offered to purchase all of the remaining voting shares of the relevant company.	Under the Takeover Code, if an acquisition of BGH Shares were to increase the aggregate holding of an acquiror (together with its concert parties) of BGH Shares carrying 30% or more of the voting rights in BGH, the acquiror and, depending upon the circumstances, its concert parties, would be required (except with the consent of the Panel) to make an offer for the outstanding BGH Shares. A similar obligation to make such a mandatory offer would also arise on the acquisition of BGH Shares by a person holding (together with its concert parties) BGH Shares carrying between 30% and 50% of the voting rights in BGH if the effect of such acquisition were to increase that person's percentage of the voting rights.

PART XXI

ADDITIONAL INFORMATION

1. BGH

BGH was incorporated and registered in England and Wales on 14 October 2011 as a public limited company with the name Bank of Georgia Holdings Plc and with the registered number 7811410. BGH's registered office and principal place of business is at 84 Brook Street, London, W1K 5EH, United Kingdom and its telephone number is +44 (0) 20 3178 4052. The principal laws and legislation under which BGH operates and under which the Subscriber Share and the Redeemable Shares have been, and which the BGH Offer Shares will be, allotted and issued are the Companies Act and regulations made thereunder. In the event that the Offer is declared wholly unconditional, BGH will become the new ultimate parent company of the Group.

2. BGH Corporate Resolutions and Share Capital

The share capital history of BGH is set out below.

2.1 On incorporation the share capital of BGH consisted of the Subscriber Share which was issued for cash to Abogado Nominees Limited. Following incorporation, the Subscriber Share was transferred by Abogado Nominees Limited to Irakli Gilauri for £1.

2.2 On 3 November 2011, in accordance with a resolution of the BGH Directors passed on the same date, BGH issued 50,000 Redeemable Shares to Irakli Gilauri paid up in full.

2.3 Ordinary and special resolutions were passed by the sole member of BGH in a general meeting held on 12 December 2011 to the effect that:

(a) subject to the Offer being declared wholly unconditional the Articles be adopted in substitution for, and to the exclusion of, the existing articles of association of BGH;

(b) subject to the Offer being declared wholly unconditional the capital of BGH be reduced by:

(i) cancelling and extinguishing paid-up share capital by reducing the nominal value to £0.01 of each of the BGH Offer Shares in issue at the Reduction of Capital Record Time; and

(ii) cancelling either:

(A) the amount of the share premium account (if any) in existence at the Reduction of Capital Record Time; or

(B) all of the Class A Shares (if any) in issue at the Reduction of Capital Record Time;

(c) in addition to the authorities contained in Paragraph 2.3(e) below, the BGH Directors be authorised to allot:

(i) BGH Offer Shares up to a maximum aggregate nominal amount of £240,000,000 in connection with the Offer; and

(ii) Class A Shares up to a maximum aggregate nominal amount of £550,000,000,

provided that such power shall expire at the conclusion of BGH's Annual General Meeting in 2012, save that BGH may before the expiry of this authority make an offer or agreement which would or might require shares to be allotted after such expiry and the BGH Directors may allot shares in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired;

(d) subject to the Offer being declared wholly unconditional the BGH Directors be authorised to capitalise the full amount standing to the credit of the merger reserve (if any) established by BGH in connection with the Offer and that the BGH Directors be unconditionally authorised and directed to apply the sum so capitalised in issuing Class A Shares to those holders of Bank Shares who have validly accepted the Offer and are registered or are entitled to be registered as holders of BGH Offer Shares in the same proportions in which such sum would have been divisible amongst them if it were distributed by way of a dividend and applying such sum on their behalf in paying up in full Class A Shares and to allot such shares at their nominal value *pro rata* to such holders (or, if BGH so determines to such person as BGH may procure as a nominee for such holders) credited as fully paid with fractional entitlements to Class A Shares to be aggregated into whole Class A Shares and dealt with as the BGH Directors see fit, with the Class A Shares having the rights and being subject to the conditions set out below:

(i) the Class A Shares shall carry no right to receive any of the profits of BGH available for distribution by way of dividend or otherwise;

(ii) the holders of the Class A Shares on a return of capital on a winding up shall be entitled to the amount paid up or treated as paid up on the nominal value of each Class A Share subject to:

(A) first, paying to the holders of the Redeemable Shares (if any) the nominal amount of such shares; and

(B) second, paying to the holders of Ordinary Shares the amount paid up or treated as paid up on the nominal value of each Ordinary Share together with the sum of £100,000 on each Ordinary Share;

(iii) except as provided under (i) and (ii) above, the Class A Shares shall not carry any right to participate in the profits or assets of BGH respectively;

(iv) the holders of the Class A Shares shall not be entitled to receive notice of or attend and vote at any general meeting of BGH unless a resolution is to be proposed which varies, modifies, alters or abrogates any of the rights attaching to the Class A Shares;

(v) BGH may at its discretion at any time after 31 March 2012, without prior notice, redeem some or all of the Class A Shares then in issue, in each case for a total aggregate price not exceeding £0.01 for all such Class A Shares redeemed. All Class A Shares shall, upon redemption, immediately and automatically be cancelled; and

(vi) no share certificates shall be issued in respect of Class A Shares. The Class A Shares shall not be transferable except with the written consent of the BGH Board;

(e) subject to Admission and in addition to the authorities set out in Paragraph 2.3(c) above, the BGH Directors be generally and unconditionally authorised for the purpose of section 551 of the Companies Act to exercise all the powers of BGH to allot new shares in BGH or to grant rights to subscribe for or to convert any security into new shares in BGH:

(i) up to a maximum aggregate nominal amount of £80,000,000 before the Reduction of Capital and £133,333.33 thereafter; and

(ii) in addition to the amount referred to in Paragraph (i) above, up to an aggregate nominal amount of £80,000,000 before the Reduction of Capital and £133,333.33 thereafter in relation to an allotment of equity securities (within the meaning of section 560(1) of the Companies Act) in connection with a rights issue,

for a period expiring at the conclusion of BGH's Annual General Meeting in 2012, save that BGH may before the expiry of this authority make an offer or agreement which would or might require shares to be allotted or rights to be granted after such expiry and the BGH Directors may allot shares or grant rights in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired.

For the purposes of this resolution "rights issue" means an offer to (i) holders of Ordinary Shares made in proportion (as nearly as practicable) to their respective existing holdings of Ordinary Shares and (ii) holders of other equity securities of any class if this is required by the rights attaching to those securities or, if the BGH Directors consider it necessary, as permitted by the rights attaching to those securities, to subscribe for further equity securities by means of the issue of a renounceable letter (or other negotiable document) which may be traded for a period before payment for the securities is due, but subject to the BGH Directors having a right to make such exclusions or other arrangements as they consider necessary or expedient to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems arising in, or under the laws of, any territory or any other matter;

(f) subject to Admission the BGH Directors be empowered pursuant to section 570 of the Companies Act to allot equity securities (within the meaning of section 560(1) of the Companies Act) for cash:

(i) pursuant to the authority conferred by Paragraph 2.3(e)(i) above as if section 561 of the Companies Act did not apply to the allotment, provided that the power conferred by this resolution is limited to:

(A) an allotment of equity securities in connection with a pre-emptive offer; or

(B) an allotment of equity securities otherwise than in connection with a pre-emptive offer up to a nominal amount not exceeding in aggregate £12,000,000 before the Reduction of Capital has become effective and £20,000 thereafter, and

(ii) pursuant to the authority given by the resolution referred to in Paragraph 2.3(e)(ii) above as if section 561 of the Companies Act did not apply to the allotment provided that the power conferred by this resolution is limited to an allotment of equity securities in connection with a rights issue,

such power to expire at the conclusion of BGH's Annual General Meeting in 2012, save that BGH may before the expiry of this authority make an offer or agreement which would or might require shares to be allotted after such expiry and the BGH Directors may allot shares in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired.

For the purposes of this resolution:

"rights issue" has the same meaning as set out above in Paragraph 2.3(e) above;

"pre-emptive offer" means an offer of securities, open for acceptance for a period fixed by the BGH Directors, to (i) holders of Ordinary Shares made in proportion (as nearly as practicable) to their respective existing holdings of Ordinary Shares and (ii) holders of other equity securities of any class if this is required by the rights attaching to these securities or, if the BGH Directors consider it necessary, as permitted by the rights attaching to those securities, but subject to the BGH Directors having a right to make such exclusions or other arrangements as they consider necessary or expedient to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems arising in, or under the laws of, any territory or any other matter; and

references to the allotment of equity securities shall include a sale of treasury shares;

(g) subject to Admission BGH be generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Companies Act) of its own shares, subject to the following conditions:

(i) the maximum aggregate number of Ordinary Shares authorised to be purchased is 4,000,000;

(ii) the minimum price (exclusive of expenses payable by BGH in connection with the purchase) which may be paid for a Ordinary Share is an amount equal to its nominal value;

(iii) the maximum price (exclusive of expenses payable by BGH in connection with the purchase) which may be paid for each Ordinary Share purchased under this authority is an amount equal to the higher of:

(A) 105% of the average of the middle market quotations for Ordinary Shares as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased; and

(B) the higher of the price of the last independent trade of a Ordinary Share and the highest current independent bid for a Ordinary Share as stipulated by Article 5(1) of Commission Regulation (EC) of 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buy-back programmes and stabilisation of financial instruments (No 2273/2003);

(iv) this authority shall expire at the conclusion of BGH's Annual General Meeting in 2012 (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which may be executed wholly or partly after such expiry) unless such authority is renewed prior to such time;

(h) subject to Admission BGH be authorised in accordance with the Articles to call general meetings on 14 clear days' notice;

(i) BGH and all of its subsidiaries are authorised to make political donations in accordance with section 366 of the Companies Act; and

(j) the purchase by BGH of the Bank Shares from certain BGH Directors or certain persons connected to BGH Directors pursuant to the Offer in consideration of the issue of the relevant number of BGH Offer Shares be authorised and approved.

2.4 Immediately prior to the publication of this Prospectus, the issued share capital of BGH comprised the Subscriber Share (which was fully paid) and 50,000 Redeemable Shares (all of which were fully paid).

2.5 In the event that in connection with the Offer the issue of BGH Offer Shares with a nominal value of £6.00 would or may result in the allotment of shares at a discount, the BGH Directors shall decide on such lower nominal as is required to avoid allotting the BGH Offer Shares at a discount.

2.6 In the event that a merger reserve is created in connection with the Offer, the Class A Shares resulting from the capitalisation of that merger reserve shall be allotted *pro rata* to those holders of Bank Shares that have validly accepted the Offer and are registered or are entitled to be registered as holders of BGH Offer Shares (or, if BGH so determines, to such person as BGH may procure as nominee for such holders) and are to be cancelled pursuant to the Reduction of Capital.

2.7 None of the Redeemable Shares, the Subscriber Share and the Class A Shares (if any) will be listed or traded on any stock exchange.

2.8 Save as disclosed in this prospectus or pursuant to or in connection with the Offer:

(a) no share or loan capital of BGH has been issued or agreed to be issued, or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash, to any person;

(b) no commissions, discounts, brokerages or other special terms have been granted by BGH in connection with the issue or sale of any of its share or loan capital; and

(c) no share or loan capital of BGH is under option or agreed conditionally or unconditionally to be put under option.

2.9 BGH will be subject to the continuing obligations of the FSA and English company law with regard to the issue of shares for cash. The provisions of section 561(1) of the Companies Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees' share scheme as defined in section 1166 of the Companies Act) apply to the issue of shares in the capital of BGH except to the extent such provisions have been disapplied in accordance with Paragraph 2.3(f) above.

3. BGH Articles of Association

3.1 The Articles are available for inspection at the address specified below in the Paragraph entitled "— Documents Available For Inspection" of this Part XXI. A summary of the Articles is set out in Part XIX "Summary of BGH Articles of Association" and a comparison of the principal differences between the Articles and the Charter and a summary of the significant differences between English and Georgian law are set out in Part XX "Comparison of Shareholder Rights in BGH and GDR Holder and Shareholder Rights in the Bank".

4. BGH Major Shareholders

4.1 As of the date of this Prospectus, BGH has no shareholders other than Irakli Gilauri (who holds the Subscriber Share and 50,000 Redeemable Shares).

In so far as is known to the BGH Directors, the following interests (other than interests held by BGH Directors) represent, directly or indirectly 10% or more of the issued share capital of the Bank. The table also shows the expected interests (other than interests held by BGH Directors) representing, directly or indirectly 10% or more of the issued share capital in BGH on Admission, assuming full acceptance of the Offer and the completion of the Debt Conversion in full:

Shareholder	Number of Bank Shares held as of the date of this Prospectus(1)	Percentage of Bank Share Capital as of the date of this Prospectus	Percentage of BGH Fully Diluted Share Capital on Admission(2)
BNY Nominees Limited(3)(4)	30,066,856	91.45	0.00
East Capital Asset Management AB(5)	6,217,485	18.91	17.03

(1) Bank Shares (including Bank Shares held as GDRs).
(2) Assuming full acceptance of the Offer and the completion of the Debt Conversion in full.
(3) Acting in its capacity as custodian under the GDR programme.
(4) Includes 4,851,179 Bank Shares in the form of GDRs held by East Capital Asset Management AB through BNY Nominees Limited.
(5) East Capital Asset Management AB holds its interests through five funds. Includes Bank Shares held as GDRs by BNY Nominees Limited.

4.2 Save as disclosed above, in so far as is known to the BGH Board, there is no other person who is or will be immediately following Admission, directly or directly interested in 10% or more of the issued share capital of BGH, or of any other person who can, will or could, directly or indirectly, jointly or severally, exercise control over BGH. The BGH Board has no knowledge of any arrangements, the operation of which may at a subsequent date result in a change of control of BGH. None of BGH's major shareholders have or will have different voting rights attached to the shares they hold in BGH.

4.3 None of the holders of BGH Offer Shares will have voting rights that differ from any other holders of such shares.

5. EBRD and IFC Convertible Debt

5.1 Pursuant to an irrevocable undertaking and lock-up agreement between the Bank, BGH and each of EBRD and IFC, each agreement being dated 8 December 2011 and 9 December 2011 (respectively), being on substantially the same terms and governed by English law (together, the "**IFI Irrevocable Undertakings**"), each of EBRD and IFC has agreed to convert part of their respective Convertible Subordinated Loans into a total of 1,817,503 Bank Shares each, to be issued fully paid by a conversion of an outstanding principal amount of US$24,951,541.40 carrying an interest rate of six month LIBOR plus 8% per annum under their respective Loans (the "**Conversion Option**"). The Bank Shares to be issued pursuant to the Conversion Option to each of EBRD and IFC will comprise (i) 1,736,253 Option Shares to be issued at a price of US$13.80 and (ii) 81,250 Anti-Dilution Shares to be issued at a price of US$12.20 (as each term is defined in the IFI Irrevocable Undertakings). The interest which would be payable by the Bank on the principal amount of the Convertible Subordinated Loans being converted is six month LIBOR plus 8% per annum.

5.2 Subject to the conditions below, prior to the Expiration Time, each of EBRD and IFC has agreed to accept the Offer by delivering to BGH their respective Form of Acceptance and/or Certification Form (duly completed and signed in acceptance of the Offer) in relation to the Bank Shares held by each of them as of the option settlement date.

5.3 The exercise by each of EBRD and IFC of their respective Conversion Option and the undertaking by each of EBRD and IFC to accept the Offer is conditional upon certain conditions being satisfied on the option settlement date (which is expected to be approximately one Business Day prior to the Expiration Time) including: (i) the average 20 Business Day closing price of a GDR on the London Stock Exchange being not less than US$11.00; (ii) the level of acceptance of the Offer being not less than 75% (including the Bank Shares to be issued pursuant to the Conversion Option to each of EBRD and IFC); and (iii) the Sponsor not having terminated the Sponsor Agreement.

5.4 Each of EBRD and IFC has agreed not to dispose of its interest in any BGH Offer Shares held or to be held pursuant to the exercise of the Conversion Option (or any additional BGH Offer Shares issued to it pursuant to any capital reorganisation of BGH thereafter) for a period of two years following Admission (the "Lock-up Restrictions"). In addition to certain customary carve-outs to the Lock-up Restrictions, the Lock-up Restrictions given by EBRD and IFC are subject (inter alia) to continued compliance by the Bank with certain covenants and undertakings relating to anti-corruption and environmental and social policies.

5.5 In consideration for EBRD and IFC agreeing to enter into the IFI Irrevocable Undertakings and to exercise the Conversion Option and to be bound by the Lock-up Restrictions, on completion of the Conversion Option, the Bank has agreed to make the following cash payments to each of EBRD and IFC:

(a) US$1,000,000 to be paid (i) within five Business Days of the date on which the BGH Offer Shares are issued to EBRD and IFC (the "**Issue Date**"), in the event Admission occurs; or (ii) within 5 Business Days of the Long Stop Date, in the event Admission does not occur in accordance with the terms of the Offer;

(b) an amount equal to US$450,000 less the amount of any BGH dividend paid or declared (but not yet paid) during the period from the Issue Date up to and including 30 June 2012 (the "**2011 Dividend**"), such payment to be made on 2 July 2012; and

(c) an amount equal to US$550,000 less the aggregate of (i) the amount of any BGH dividend paid (except for the BGH dividend that has been declared on or before 30 June 2012 but paid thereafter) or declared (but not yet paid) during the period from and including 1 July 2012 up to and including 30 June 2013 and (ii) the amount (if any) by which the 2011 Dividend exceeded US$450,000, such payment to be made on 1 July 2013 (together with the payment referred to in Paragraph (b) above, the "Early Redemption Amounts").

5.6 The Bank shall only be obliged to pay the Early Redemption Amounts on the basis that the Lock-up Restrictions continue to apply to EBRD and IFC (respectively) on the relevant payment dates stipulated in Paragraphs 5.5(b) and 5.5 (c) above.

6. BGH Directors', Bank Directors' and Senior Managers' Shareholdings and Stock Options

6.1 The following table sets out the BGH Directors', the Bank Director's and the Senior Managers' direct and indirect shareholdings and stock options in the Existing Securities as of the date of this Prospectus and their anticipated shareholdings and stock options in BGH as of the date of Admission, assuming full acceptance of the Offer and the completion of the Debt Conversion in full.

	As of the date of this Prospectus		On Admission		
Holders	Number of Existing Securities and nil-cost options over GDRs (awarded and vested)(1)(2)	Number of nil-cost options over GDRs (awarded but not yet vested)(1)(3)	Number of BGH Offer Shares and nil-cost options over BGH Offer Shares (awarded and vested)(1)(4)	Number of nil-cost options over BGH Offer Shares (awarded but not yet vested)(1)(5)	Percentage of BGH Fully Diluted Share Capital(6)
BGH Directors:					
Neil Janin	12,779	0	12,779	0	0.0%
Irakli Gilauri	194,379	374,565	396,944(7)	262,000(7)	1.8%
David Morrison	20,357	0	20,357	0	0.1%
Al Breach	10,279	0	10,279	0	0.0%
Allan Hirst	58,616	0	58,616	0	0.2%
Kaha Kiknavelidze	26,337	0	26,337	0	0.1%
Ian Hague	5,112	0	5,112	0	0.0%
Hanna Loikkanen	2,616	0	2,616	0	0.0%
Bank Directors(8):					
Giorgi Tchiladze	14,000	109,000	40,167	112,833	0.4%
Michail Gomarteli	10,634	78,500	34,884	79,250	0.3%
Archil Gachechiladze	10,000	72,334	32,167	80,167	0.3%
Vasili Revishvili	5,908	88,723	32,381	92,250	0.3%
Sulkhan Gvalia	58,638	75,334	80,472	78,500	0.4%
Avto Namicheishvili	39,823	121,332	74,822	116,333	0.5%
Murtaz Kikoria	0	84,779	18,799	91,000	0.3%
Irakli Burdiladze	0	70,334	19,334	76,000	0.3%
Senior Managers:					
Nikoloz Gamkrelidze	0	10,000	3,333	6,667	0.0%
Macca Ekizashvili	11,216	26,002	16,718	20,500	0.1%
Thea Jokhadze	2,315	25,002	7,483	19,834	0.1%
Kakhaber Davitaia	29,567	32,668	37,568	24,667	0.2%
David Vakhtangishvili	0	35,500	9,833	25,667	0.1%

Note:

(1) A nil-cost option is a right to acquire GDRs (or, after the Offer has been declared wholly unconditional, BGH Shares) for no payment at a time chosen by the award holder).

(2) Nil cost options over GDRs are awarded under the Employee Executive Compensation Plans (for further information, see Paragraph 15 below).

(3) Nil cost options over GDRs are awarded under the Employee Executive Compensation Plans (for further information, see Paragraphs 19 through 23 below).

(4) Assuming Bank Directors and Senior Managers fully accept the Offer and certain nil cost options over GDRs will vest as of 1 January 2012.

(5) Assuming Bank Directors and Senior Managers fully accept the Offer and certain Guaranteed Securities (as defined in Paragraph 21.3 below) will be awarded as of 1 January 2012.

(6) Assuming full acceptance of the Offer and the completion of the Debt Conversion in full.

(7) Excludes the Subscriber Share and the Redeemable Shares.

(8) Bank Directors who are not also BGH Directors.

Prior to Admission, none of the BGH Directors, Bank Directors or Senior Managers (except Irakli Gilauri) will have an interest in BGH Shares. Irakli Gilauri has an interest in 50,001 BGH Shares, comprised of one Subscriber Share and 50,000 Redeemable Shares.

Assuming that the Irrevocable Undertakings given by the BGH Directors, the Bank Directors and the Senior Managers (for further, see Paragraph 8 below) are complied with and the Rubicon Executive Equity Compensation Trust accept the Offer in full with respect to the nil cost options over GDRs to which the Bank Directors and the Senior Managers are entitled, none of the BGH Directors, the Bank Directors or the Senior Managers will hold any Bank Shares upon Admission.

6.2 None of the BGH Directors, the Bank Directors or any of the Senior Managers has or has had any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of the Group or any of its subsidiary undertakings and which were effected by the Group or any of its subsidiaries during the current or immediately preceding financial year or during an earlier financial year and which remain in any respect outstanding or unperformed as at the date of this Prospectus.

7. Irrevocable Undertakings — BGH Directors, Bank Directors, Senior Managers and Employees

7.1 The Bank and BGH have received Irrevocable Undertakings to accept the Offer from each of the BGH Directors, the Bank Directors and Senior Managers in respect of their interests in Existing Securities (including Bank Shares held through GDRs, but excluding Bank Shares and GDRs held pursuant to the Employee Executive Compensation Plans). The Bank and BGH have also received Irrevocable Undertakings to accept the Offer from the Group's employees. These Irrevocable Undertakings have been given in respect of 908,949 Existing Securities, in aggregate, (including Bank Shares held through GDRs), representing in aggregate approximately 2.8% of the Bank Share Capital as at the date of this Prospectus.

7.2 The Irrevocable Undertakings are conditional on, among other things, BGH having received, or being entitled to receive, valid acceptances, which, when aggregated with the acceptances which such Existing Holders are required to provide pursuant to the Irrevocable Undertakings, equal at least 75% of the Bank Share Capital and the Acceptance Condition not being amended, varied or waived down to below 75%.

7.3 The Irrevocable Undertakings will lapse if: the Offer lapses or is withdrawn or the Offer has not been declared unconditional in all respects by 5.00pm (London time) on 31 March 2012 (being the Long Stop Date), without prejudice to any rights or liabilities in respect of breaches of contract committed prior to the lapsing.

8. Irrevocable Undertakings — Existing Holders

8.1 The Bank and BGH have received Irrevocable Undertakings from certain other Existing Holders (this excludes the IFI Irrevocable Undertakings, for which see Paragraph 5 "EBRD and IFC Convertible Debt" of this Part XXI and the Irrevocable Undertakings from each of the BGH Directors, the Bank Directors and Senior Managers, for which see Paragraph 7 of this Part XXI) in respect of 6,382,399 Existing Securities, in aggregate, (including Bank Shares held through GDRs), representing 19.4% of the Bank Share Capital the date of this Prospectus.

8.2 The Irrevocable Undertakings are conditional on, among other things, BGH having received, or being entitled to receive, valid acceptances, which, when aggregated with the acceptances which such Existing Holders are required to provide pursuant to the Irrevocable Undertakings, equal at least 75% of the Bank Share Capital and the Acceptance Condition not being amended, varied or waived down to below 75%.

8.3 The Irrevocable Undertakings will lapse if: the Offer lapses or is withdrawn or the Offer has not been declared unconditional in all respects by 5.00pm (London time) on 31 March 2012 (being the Long Stop Date), without prejudice to any rights or liabilities in respect of breaches of contract committed prior to the lapsing.

9. Letters of Intent — Existing Holders

9.1 Between 17 October 2011 and 24 October 2011, the Bank and BGH have received Letters of Intent to accept the Offer from certain Existing Holders in respect of, in aggregate, 12,887,342 Existing Securities (including Bank Shares held in the form of GDRs) representing in aggregate 39.2% of the Bank Share Capital as at the date of this Prospectus. The letters of intent are not binding on the Existing Holders in question and do not restrict the relevant Existing Holders' ability to transfer or otherwise dispose of their Existing Securities, acquire any additional Existing Securities or to vote in favour of or accept any other offer to acquire all of the Bank Shares if one were to be made.

10. BGH Directors' Terms of Employment

10.1 The BGH Directors and their functions are set out in Part XVII "Directors, Senior Management, Corporate Governance and Employees". The terms of their employment and/or appointment are summarised below.

11. BGH Executive Director

11.1 The following table summarises the service agreement entered into between the sole Executive Director of BGH and BGH:

Name	Position	Date of BGH service contract	Notice period	BGH salary
Irakli Gilauri	Chief Executive Officer	15 December 2011	Four months	US$250,000

11.2 On 15 December 2011, BGH entered into a service agreement with Irakli Gilauri. The service agreement provides for Irakli Gilauri to act as Chief Executive Officer of the Group at a salary of US$250,000 per annum. BGH will also reimburse Irakli Gilauri for all reasonable business expenses properly incurred and paid by him. Pursuant to a separate side letter entered into by the parties to the service agreement, Irakli Gilauri has agreed to waive his right to a salary under the service agreement until Admission. The service agreement can be terminated by either party giving to the other party not less than four months' written notice. Pursuant to a separate indemnity agreement, BGH has agreed, subject to certain terms and only to the extent not prohibited by law, to indemnify Irakli Gilauri against all losses suffered or incurred by the him which arise out of or in connection with his role as a director and Chief Executive Officer of BGH.

11.3 Irakli Gilauri also serves as Chief Executive Officer of the Bank. The following table summarises the service agreement between the Bank and Irakli Gilauri in his capacity as Chief Executive Officer of the Bank.

Name	Current Position	Year Appointed	Expiration of Term	Notice period (Directors)(3)	Base salary(4)	Guaranteed Securities(1),(2)
Irakli Gilauri . .	Chief Executive Officer	2010	2013	3 months	US$375,000	90,000

Note:

(1) The Guaranteed Securities will be awarded annually and be subject to four-year vesting. Please see Paragraph 21.3 below for more detail.

(2) At the sole discretion of the Bank Supervisory Board the Management Board may also be awarded additional GDRs and/ or Bank Shares.

(3) Termination by the Bank shall have immediate effect. Where the contract is terminated by Irakli Gilauri for good reason or the Bank (other than for cause) Irakli Gilauri is entitled to the equivalent of no less than 12 months base salary and any accrued but unpaid tranches of the previous year's annual cash bonus as payment in lieu of notice.

(4) The basic salary will be reduced to US$187,500 after Admission.

11.4 Irakli Gilauri's service agreement with the Bank contains non-compete and confidentiality provisions and an indemnity provision. It is governed by and construed in accordance with English law, provided, however, that nothing is construed to require the Bank to violate any mandatory provision of Georgian law applicable to the Bank as a Georgian joint stock company commercial bank. The agreement contains a tax gross-up provision pursuant to which the Bank has agreed, subject to certain conditions, to gross-up Irakli Gilauri's salary in the event that the UK tax authorities assess some or all of his salary from the Bank to tax in the United Kingdom.

12. BGH Non-Executive Directors

12.1 The following table summarises the letters of appointment entered into between the non-executive directors of BGH and BGH:

Name	Position	Date of BGH letter of appointment	Term of appointment	Notice period	BGH fees(1)	Compensation from other committees(1)
Neil Janin	Chairman	15 December 2011	3 years	1 month	US$107,500(2)	—
David Morrison	Non-executive Director	15 December 2011	3 years	1 month	US$50,000	US$29,500
Alasdair (Al) Breach	Non-executive Director	15 December 2011	3 years	1 month	US$37,500	US$22,000
Allan Hirst	Non-executive Director	15 December 2011	3 years	1 month	US$37,500	US$26,000
Kakhaber (Kaha) Kiknavelidze . .	Non-executive Director	15 December 2011	3 years	1 month	US$37,500	US$22,000
Ian Hague	Non-executive Director	15 December 2011	3 years	1 month	N/A(3)	N/A(3)
Hanna-Leena (Hanna) Loikkanen	Non-executive Director	15 December 2011	3 years	1 month	N/A(3)	N/A(3)

Note:

(1) Pursuant to separate side letters entered into by each of Neil Janin, David Morrison, Al Breach, Allan Hirst and Kaha Kiknavelidze and BGH, the aforementioned non-executive directors of BGH have agreed to waive their fees under their respective appointment letters until Admission.

(2) This includes Neil Janin's BGH fees and his fees for acting on committees of BGH.
(3) Ian Hague and Hanna Loikkanen have agreed to waive their fees for their role as non-executive director of BGH. BGH will reimburse them for all reasonable and properly documented expenses they incur in performing their duties.

12.3 Pursuant to separate indemnity agreements, BGH has agreed, subject to certain terms and only to the extent not prohibited by law, to indemnify each of the non-executive directors of BGH against all losses suffered or incurred by the them which arise out of or in connection with their role as a director of BGH.

12.4 The non-executive directors of BGH are also members of the Bank Supervisory Board. The GMS appoints and dismisses the members of the Bank Supervisory Board and members of the Bank Supervisory Board do not have written service agreements. The statutory term of each Supervisory Board member is four years.

12.5 The following table summarises the terms of appointment of the non-executive directors of BGH in their capacity as member of the Bank Supervisory Board.

Name	Current Position	Year Appointed	Expiration of Term	Compensation(3)	Compensation from other committees
Neil Janin	Chairman of the Supervisory Board	2010	2014	US$187,500	N/A
David Morrison	Vice-Chairman of the Supervisory Board	2009	2013	US$87,500	US$18,750
Alasdair (Al) Breach	Supervisory Board Member	2010	2014	US$62,500	US$18,750
Allan Hirst	Supervisory Board Member	2006(1)	2014	US$62,500	US$25,000
Kakhaber (Kaha) Kiknavelidze	Supervisory Board Member	2008	2012	US$62,500	US$18,750
Ian Hague	Supervisory Board Member	2004(2)	2013	US$62,500	US$12,500
Hanna-Leena (Hanna) Loikkanen	Supervisory Board Member	2010	2014	US$62,500	US$12,500

Note:
(1) Appointment was extended in 2010.
(2) Appointment was extended in 2009.
(3) The Supervisory Board members may also from time to time be awarded share or cash bonuses at shareholder meetings. Total annual compensation (including committee membership fees) will be reduced with effect from Admission to US$107,500 (Neil Janin), US$68,500 (David Morrison), US$52,500 (Allan Hirst), US$48,500 (Alasdair Breach), US$48,500 (Kaha Kiknavelidze), nil (Ian Hague) and nil (Hanna Loikkanen).

13. Senior Managers

13.1 *Key Senior Managers*

13.2 The following table summarises the service agreements between the Bank and the Key Senior Managers.

Name	Current Position	With the Group Since	Year Appointed	Expiration of Term	Notice period (Directors)	Base salary	Guaranteed Securities(1)(2)
George (Giorgi) Tchiladze	Deputy CEO (Finance)	2008	2010	2013	3 months(3)	US$150,000	30,000
Michail Gomarteli	Deputy CEO (Retail Banking)	1997	2010	2013	3 months(3)	US$130,000	25,000
Archil Gachechiladze	Deputy CEO (Corporate Banking)	2009	2010	2013	3 months(4)	US$175,000	30,000
Vasili Revishvili	Deputy CEO (Wealth Management)	2008	2010	2013	3 months(3)	US$150,000	30,000
Sulkhan Gvalia	Deputy CEO (Chief Risk Officer)	2005	2010	2013	3 months(3)	US$150,000	25,000
Avtandil (Avto) Namicheishvili	Deputy CEO (Legal)	2007	2010	2013	3 months(3)	US$150,000	30,000
Murtaz Kikoria	Deputy CEO (Investments and Strategic Projects)	2008	2010	2013	3 months(3)	US$150,000	25,000
Irakli Burdiladze	Deputy CEO (Affordable Housing)	2006	2010	2013	3 months(3)	US$130,000	25,000

Note:
(1) The Guaranteed Securities will be awarded annually and be subject to four-year vesting. Please see Paragraph 21.3 below for more detail.
(2) At the sole discretion of the supervisory board the management board may also be awarded additional Bank GDRs and/ or Bank Shares.
(3) Termination by the Bank shall have immediate effect. Where the contract is terminated by a member of the management board for good reason or the Bank (other than for cause) the executives are entitled, as payment in lieu of notice, to the equivalent of no less than six months base salary (in the case of termination by the Bank without case) and the equivalent of no less than three months base salary (in the case of

termination by the executive for good reason) and any accrued but unpaid tranches of the previous year's annual cash bonus (if any) with any accrued interest or capital gains in the securities in which such tranches have been invested.

(4) Termination by the Bank shall have immediate effect. Where the contract is terminated by Archil Gachechiladze for good reason or the Bank (other than for cause) Archil Gachechiladze is entitled, as payment in lieu of notice, to the equivalent of no less than six months base salary (in the case of termination by the Bank without case) and the equivalent of no less than three months base salary (in the case of termination by the executive for good reason) and any accrued but unpaid tranches of the previous year's annual cash bonus (if any) with any accrued interest or capital gains in the securities in which such tranches have been invested and the pro-rata portion of the One-off GDR/Share Award not yet vested as of the termination date.

13.3 The Key Senior Managers' service agreements all contain non-compete and confidentiality provisions and are governed by Georgian law.

13.4 *Senior Managers*

13.5 The following table summarises the service agreements between the Bank and the Senior Managers.

Name	Current Position	With the Group Since	Year Appointed	Expiration of Term	Notice Period (Senior Managers)(1)	Base Salary(2)
Nikoloz Gamkrelidze	CEO, Aldagi BCI	2006	2007	2012	2 months	GEL 129,636
Mariam (Macca) Ekizashvili	Head of Investor Relations/Head of UK Representative Office	2004	2005	2012	1 month	GEL 217,464(3)
Thea Jokhadze	Head of Funding	2005	2005	2012	1 month	GEL 168,000
Kakhaber Davitaia	Head of Treasury	1995	2003	2012	1 month	GEL 108,000
David Vakhtangishvili	Head of Finance Department	2007	2007	2012	1 month	GEL 168,000

Notes:

(1) Termination by the Bank shall have immediate effect provided that the Senior Manager is paid the leaving allowance comprising at least notice period salary

(2) Upon the recommendation of the Bank's Chief Executive Officer and with the approval of the Bank Supervisory Board, the Senior Managers may be awarded restricted Bank GDRs and/or Bank Shares

(3) The equivalent of GEL 116,160 is fixed in Pounds Sterling.

13.6 The Senior Managers' service agreements all contain non-compete and confidentiality provisions and are governed by Georgian law.

14. BGH Directors, Bank Directors' and Senior Managers' Remuneration and Benefits in 2010

14.1 The aggregate amount of the salaries, share-based compensation and other benefit expenses (including any contingent or deferred compensation) incurred by the Group in respect of services provided by BGH Directors, the Bank Directors and the Senior Managers to the Group for the year ended 31 December 2010 are set out in the table below.

	For the year ended 31 December 2010
	(unaudited) *(thousands of Lari)*
Salaries and other benefits	6,197
Share-based payments compensation	6,577
Total	**12,774**

15. Loans to BGH Directors, Bank Directors and Senior Managers

As of 30 September 2011, the Group had outstanding loans and guarantees to BGH Directors, Bank Directors and Senior Managers in an amount of GEL 2.1 million (US$1.3 million).

16. BGH Directors', Bank Directors' and Senior Managers' Current and Past Directorships

16.1 Set out below are the directorships (unless otherwise stated) held by the BGH Directors in the five years prior to the date of this Prospectus, excluding their directorships in BGH, the Bank and subsidiaries of the Bank:

Name	Current directorships(1)	Past directorships(1)
Neil Janin	E-Search Vision Telemedinvest	McKinsey & Co.
Irakli Gilauri	N/A	N/A
David Morrison	Caucasus Nature Fund	Sullivan & Cromwell LLP

Name	Current directorships(1)	Past directorships(1)
Al Breach	Vostok Nafta Investment Ltd., MFX Solutions Inc., Furka Advisors AG, The Browser Publications AG and its subsidiaries: The Browser Ltd & Five Books Ltd)	
Allan Hirst	Phico Therapeutics Limited, Financial Services Volunteer Corps	Northstar Corporate Finance, Rosbank
Kaha Kiknavelidze	Rioni Capital Services Ltd, Rioni Capital Partners LLP	UBS (Russia)
Ian Hague	SDM Bank, Nizhegorodskii Bankirskii Dom, Nizhnii Novgorod, JSC Kavkaz Cement, JSC Iberia, JSC Traveler's Coffee, Global Gold Inc., Atlantic Council, Committee to Protect Journalists, Caucasus Nature Fund, Friends of the Hermitage	Sotsgorbank
Hanna Loikkanen	RDF AG, EEDF AG, Laomar Ltd, Locko Bank CJSC, Locko Invest CJSC, Probusiness Bank CJSC, Morgan & Stout CJSC	Severnaya Kazna CJSC, FIM Financial Services CJSC

Note:
(1) Includes membership of the supervisory board of an entity.

16.2 Set out below are the directorships (unless otherwise stated) held by the Bank Directors (save for Neil Janin, Irakli Gilauri, David Morrison, Allen Hirst, Kaha Kiknavelidze, Al Breach, Ian Hague and Hanna Loikkanen, for which see Paragraph 14.1, above) in the five years prior to the date of this Prospectus, excluding their directorships in BGH, the Bank and subsidiaries of the Bank:

Name	Current directorships(1)	Past directorships(1)
Giorgi Tchiladze	N/A	JSC BTA Bank (Georgia), JSC BG Bank (now known as PJSC Bank Pershyi)
Michail Gomarteli	N/A	N/A
Archil Gachechiladze	N/A	TBC Bank
Vasili Revishvili	N/A	N/A
Sulkhan Gvalia	N/A	JSC BG Bank (now known as PJSC Bank Pershyi)
Avto Namicheishvili	N/A	Begiashvili & Co. Limited, Small Business Development Foundation, JSC BG Bank (now known as PJSC Bank Pershyi)
Murtaz Kikoria	FCC Ltd, PJSC Bank Pershyi (formerly known as JSC BG Bank)	Zarapxana Ltd., JSC Costanta
Irakli Burdiladze	N/A	GMT Group

Note:
(1) Includes membership of the supervisory board of an entity

16.3 Set out below are the directorships (unless otherwise stated) held by the Senior Managers in the five years prior to the date of this Prospectus, excluding their directorships in BGH, the Bank and subsidiaries of the Bank:

Name	Current directorships(1)	Past directorships(1)
Nikoloz Gamkrelidze	N/A	N/A
Macca Ekizashvili	N/A	N/A
Thea Jokhadze	Georgian Youth Rescue	Institute Metallurgproject Ltd.
Kakhaber Davitaia	N/A	N/A
David Vakhtangishvili	N/A	N/A

Note:
(1) Includes membership of the supervisory board of an entity.

16.4 Except as set forth below, within the period of five years preceding the date of this Prospectus, none of the BGH Directors, Bank Directors nor any of the Senior Managers:

(a) has had any convictions in relation to fraudulent offences;

(b) has been a member of the administrative, management or supervisory bodies or director or senior manager (who is relevant in establishing that a company has the appropriate expertise and experience for management of that company) of any company at the time of any bankruptcy, receivership or liquidation of such company; or

(c) has received any official public incrimination and/ or sanction by any statutory or regulatory authorities (including designated professional bodies) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of affairs of a company.

Ian Hague was a Non Executive Director of Sotsgorbank from September 2006 until November 2010. Sotsgorbank was taken into receivership by Bank of Russia in June 2011.

David Morrison served as Director of KfW International Finance in the 24 months prior to the bank's voluntary dissolution in 2006.

16.5 Pursuant to Article 8.1 of the Bank's Charter, voting shareholders of the Bank have the right to propose nominees for appointment to the Supervisory Board. Pursuant to this Article, Firebird Management LLC proposed Ian Hague as a nominee for appointment to the Supervisory Board in 2004. On 17 December 2004 the Bank's EGM approved Ian Hague's appointment. Pursuant to the same Article, East Capital Asset Management AB proposed Hanna Loikkanen as a nominee for appointment to the Supervisory Board in 2010. On 22 November 2010, the Bank's EGM approved Hanna Loikkanen's appointment

16.6 Save for their capacities as persons beneficially interested in Existing Securities, as summarised above, as of the date of this Prospectus no BGH Director, Bank Director or Senior Manager has any potential conflict of interest between his or her duties to BGH and his or her private interest or other duties and, save for as disclosed in Paragraph 16.5 above, there are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any person was selected as a member of the administrative, management or supervisory bodies or as a member of senior management. Each BGH Director is permitted by his or her other directorships or employments to act in his or her capacity as a Director of BGH.

17. Company Secretarial Services

17.1 Pursuant to a services agreement between BGH and KB Rea LTD (**"KB Rea"**) dated 15 December 2011, KB Rea has been appointed to provide company secretarial services to BGH. KB Rea has agreed to supply a person (being Kate Bennett Rea or such other person whom BGH and KB Rea so agree) to perform company secretarial services to BGH. BGH has agreed to pay KB Rea a fee of £13,000 per month (exclusive of VAT). Pursuant to a separate side letter entered into by the parties to the services agreement, KB Rea has agreed to waive its right to fees under the services agreement until Admission. The appointment is for an initial term of three years commencing on 15 December 2011. Notwithstanding the appointment term, KB Rea's appointment may be terminated: (i) by BGH giving KB Rea not less than one month's notice in writing; (ii) by KB Rea giving BGH not less than three month's notice in writing; (iii) in accordance with BGH's articles; or (iv) by BGH with immediate effect in certain circumstances. The agreement is governed by English law.

17.2 Pursuant to an engagement letter between the Bank and PRISM Communications & Management Limited (**"PRISM"**) entered into on 22 September 2011, PRISM has agreed to provide assistance with certain company secretarial services. The engagement letter covers the period from 22 September 2011 until 30 June 2012, but may be extended thereafter by written agreement between the parties. It can be terminated at any time by either party giving four weeks' written notice to the other party. Services provided pursuant to the engagement letter are charged at a rate of between £130 and £165 per hour, exclusive of travel and expenses. The engagement letter is governed by English law.

18. Employee Equity Compensation Plans

The Bank currently operates two share plans, the Rubicon Executive Equity Compensation Plan (**"REECP"**) and the Senior Executive Equity Compensation Plan (**"SEECP"**). To facilitate the exchange of awards under the REECP over GDRs for new awards over Ordinary Shares in the event that the Offer is declared wholly unconditional, the trustee (**"Trustee"**) of the Rubicon Executive Equity Compensation Trust (**"Trust")** upon the recommendation of the Bank and with the consent of the holders of awards under the REECP, amended the plan rules of the REECP on 9 December 2011. The plan rules of the REECP are currently substantially the same as the terms as the SEECP. Awards under the REECP and SEECP are intended to be settled with shares held in the Trust.

19. The Rubicon Executive Equity Compensation Trust

The beneficiaries of the Trust are the employees and former employees of the Group, members and former members of the Bank Supervisory Board, and their spouses, civil partners, widows, widowers, surviving civil partners and children and remoter descendants. At the date of this Prospectus, the Trust holds 2,619,532 GDRs. Of these 710,680 are allocated to satisfy nil-cost options under the REECP, 408,852 are currently available for future grants under the REECP, 452,000 are allocated to satisfy unvested nil-cost options under the SEECP, and 1,048,000 are available for future granted under the SEECP. Upon the Offer being declared wholly unconditional, GDRs held by the Trust will be tendered for Ordinary Shares.

20. Awards under the REECP

20.1 The REECP was adopted in 2006. In connection with the REECP, the Trust subscribed for 850,000 Bank Shares in the form of restricted GDRs at the time of the Bank's initial public offering. On 31 July 2007, the Trust further subscribed to an additional 650,000 Bank Shares in the form of restricted GDRs.

20.2 In 2006, the Bank Supervisory Board recommended and the Trustee resolved to award 206,000 Bank Shares in the form of restricted GDRs to 18 executives of the Bank pursuant to the REECP in respect of the year ended on 31 December 2005. As of the date of this Prospectus, 199,915 of the above-mentioned Bank Shares have vested. The remaining 6,085 Bank Shares have lapsed.

20.3 In 2007, the Bank Supervisory Board recommended and the Trustee resolved to award 371,179 Bank Shares in the form of restricted GDRs to 24 executives of the Bank pursuant to the REECP. As of the date of this Prospectus 365,612 of the above-mentioned Bank Shares have vested. The remaining 5,567 Bank Shares have lapsed.

20.4 In 2008, the Bank Supervisory Board recommended and the Trustee resolved to award 245,139 Bank Shares in the form of restricted GDRs to 23 executives of the Bank. As of the date of this Prospectus, 200,322 of the above-mentioned Bank Shares have vested. From the remaining 44,817 Bank Shares 11,668 Bank Shares have lapsed and 33,149 Bank Shares in the form of restricted GDRs were returned to the REECP by mutual agreement of one executive and the Bank Supervisory Board.

20.5 In 2009, the Bank Supervisory Board recommended and the Trustee resolved to award 623,412 Bank Shares in the form of restricted GDRs to 17 executive of the Bank pursuant to the REECP. As of the date of this Prospectus 398,338 Bank Shares have vested, 6,667 have lapsed and the remaining 218,407 Bank Shares are subject to vesting period, subject to the satisfaction of certain vesting conditions.

20.6 In 2010, the Bank Supervisory Board recommended and the Trustee resolved to award 101,922 Bank Shares in the form of restricted GDRs to two executives of the Bank. As of the date of this prospectus 81,922 Bank Shares have vested and the remaining 20,000 Bank Shares are subject to vesting period, subject to the satisfaction of certain vesting conditions.

20.7 On 1 November 2011, the Bank Supervisory Board recommended and the Trustee resolved to award (in respect of performance during the years ended 31 December 2009 and 2010) 391,170 Bank Shares in the form of nil-cost options over GDRs to 23 executives of the Bank pursuant to the REECP.

21. Awards under the SEECP

21.1 In March 2010 the Bank Supervisory Board approved a new employee compensation policy for the Bank's CEO, Deputy CEOs and certain of the Group's senior executives. The EGM of the Bank held on 22 November 2010 approved the allotment of up to 1.5 million Bank Shares for the purposes of the SEECP. The plan rules of the SEECP were adopted by the Trustee on 24 October 2011 and 1.5 million Bank Shares have been issued for the purposes of awards under the SEECP.

21.2 The SEECP can be used to make awards to the Bank's CEO, Deputy CEOs and certain of the Group's senior executives (the Bank's CEO, Deputy CEOs and certain of the Group's senior executives, together, the **"Senior Executives"**) and was adopted for the three compensation years ending in January 2013 (the **"Term of the Policy"**). The service contracts of the Deputy CEOs that are currently included within the SEECP have been extended until May 2013 and, the CEO's service contract has been extended until August 2013. The SEECP envisages guaranteed and discretionary grants of securities. No cash bonuses will be paid to the Senior Executives during the Term of the Policy.

21.3 Under the guaranteed securities portion of the SEECP, which is independent of the each Senior Executive's performance and subject to his or her continuous employment, the Bank CEO and the Deputy CEOs will be awarded, in aggregate, 310,000 Bank Shares and/or GDRs (the **"Guaranteed Securities"**) per year with respect to the 2010, 2011 and 2012 compensation years. The Guaranteed Securities in relation to the 2010 compensation year were awarded on 1 November 2011. Those in relation to the 2011 and 2012 compensation years will be awarded on or before 10 January 2012 and 10 January 2013, respectively. The awarded Guaranteed Securities will be subject to a four-year vesting period. During the first three years after each award, 20% of the awarded Guaranteed Securities will vest each year and 40% will vest in the fourth year after each award. The Guaranteed Securities awarded on 1 November 2011 took the form of nil-cost options. The Guaranteed Securities will be expensed by the Bank at GEL 18.41 (U.S.$10.28) per share from 2010 to 2017.

21.4 Under the discretionary securities portion of the SEECP, which is subject to the Senior Executive in question's continuous employment, the Senior Executive may also be awarded additional Bank Shares and/or GDRs (the **"Discretionary Securities"**) at the sole discretion of the Bank Supervisory Board during the Term of the SEECP. The number of the Discretionary Securities to be awarded will be determined annually by the Bank Supervisory Board based on the performance of the Bank and the Senior Executive and will be announced to the Senior Executives by the end of February of the following year. Discretionary Securities will be awarded immediately upon the completion of the annual audit for the reporting year and, subject to certain additional terms and conditions, will be subject to a two-year straight line vesting period. On 1 November 2011, Discretionary Securities were granted to nine Senior Executives (in respect of performance during the year ended 31 December 2010) in the form of nil-cost options, over a total of 142,000 GDRs.

22. Rubicon Executive Equity Compensation Plan 2011

22.1 The REECP is administered by the Trustee. The REECP provides for Awards to be granted to eligible employees. The Trustee determines those eligible employees to whom Awards are to be granted and the number of GDRs comprised in each Award, upon the advice of the Bank Supervisory Board.

22.2 Under the terms of the REECP, existing awards over GDRs under the REECP will be exchanged for new awards under the REECP over BGH Offer Shares when the Offer is declared wholly unconditional. Save for the vesting terms, awards under the REECP are subject to substantially the same terms as Awards under the SEECP, summarised below. Awards under the REECP generally have three year straight line vesting periods.

23. Senior Executive Equity Compensation Plan

23.1 The SEECP is administered by the Trustee of the Rubicon Executive Equity Compensation Trust (the **"Trustee"**). The SEECP provides for awards of GDRs (**"Awards"**) to be granted to eligible employees. The Trustee determines those eligible employees to whom Awards are to be granted (**"Award Holders"**) and the number of GDRs comprised in each Award, upon the advice of the Bank Supervisory Board and, after the Offer is declared wholly unconditional, with the prior approval the BGH Remuneration Committee.

23.2 If the Offer is declared wholly unconditional this will not constitute a change of control such as to trigger vesting of the Awards. Awards over GDRs existing when the Offer is declared wholly unconditional will be exchanged for new awards over BGH Offer Shares. The consent of Award Holders is not needed for this exchange, but Award Holders will be asked to return their award documentation and be issued with new documentation in relation to their new awards over BGH Offer Shares. After the Offer has been declared wholly unconditional, Awards will be made over BGH Offer Shares.

23.3 The principal provisions of the SEECP are summarised below.

(a) Nature of Awards under the SEECP

Awards may be in the form of nil-cost option awards, being a right to acquire GDRs (or, after the Offer has been declared wholly unconditional, BGH Offer Shares) for no payment at a time chosen by the Award Holder (**"Nil-Cost Option Award"**). Exercise of the Nil-Cost Option Awards may be subject to the satisfaction of vesting conditions determined at the time of grant.

Alternatively, Awards may be in the form of Share Awards, being a conditional right to acquire GDRs (or, after the Offer has been declared wholly unconditional, BGH Offer Shares) for no consideration. Vesting of the Awards may be subject to the satisfaction of vesting conditions determined at the time of grant.

No payment is required for the grant of Awards. The Participants will have no voting rights or rights to receive dividends in respect of the GDRs (or, after the Offer has been declared wholly unconditional, BGH Offer Shares) subject to the Awards before, as the case may be, a Nil-Cost Option Award is exercised or a Share Award vests.

(b) Eligibility

Any director or other senior executive the Group who is required to devote substantially the whole of his or her time to his or her duties to the Group is eligible to receive an Award under the SEECP.

(c) Timing of grant of Awards

The Trustee may grant Awards at any time, unless to do so would be in breach of any applicable statute, order, regulation or guidelines issued by any regulatory authority.

(d) Performance measures

The Trustee may make an Award or any part of an Award subject to Vesting Conditions. If the Vesting Conditions are not based solely on the Award Holder's continuous employment, the Trustee shall not impose such Vesting Conditions unless they have been unanimously agreed by every member of the Bank Supervisory Board.

Any Vesting Condition may only be altered if the original condition is no longer appropriate, the Trustee (upon the recommendation of the Bank Supervisory Board) justly and reasonably consider that the amended term or condition reflects a fairer measure of the expected performance and the Trustee reasonably consider that it will subsequently be no more difficult for an Award Holder to satisfy the condition as so adjusted than it was for him or her to achieve the condition in its original form at the Award Date.

(e) Vesting and lapse of Awards

Awards vest on the date or dates specified in the relevant Award certificate, and subject to any Vesting Conditions having been fulfilled to the reasonable satisfaction of the Trustee upon the advice of the Bank Supervisory Board.

Awards vest in full if the Award Holder terminates his or her employment for a "good reason" (as defined in the employee's service agreement) or if he or she dies. If the employer terminates the Award Holder's employment without "cause" (as defined in the Award Holder's service agreement), or if upon expiry of the Award Holder's service agreement the Award Holder is not offered a new service agreement, or if the Award Holder ceases to be an executive by reason of injury, disability, redundancy or retirement at normal retirement age or for any other reason at the discretion of the Trustee in circumstances where the participant does not remain or immediately become an executive of another company within the Group, the Trustee may in their discretion determine that the Award Holder's Awards shall continue to vest in the normal way during the remainder of the vesting period, but if the Trustee does not so exercise its discretion the Award Holder's Awards shall lapse. Awards lapse if the Award Holder terminates his or her employment without "good reason" or if employer terminates the Award Holder's employment for "cause" or if, upon the expiration of the Award Holder's service agreement, the Award Holder does not accept a new employment agreement on substantially the same terms. The Supervisory Board may set different vesting conditions for awards in the participant's service contract or, in certain cases, by separate resolution.

In the event of a change of control of BGH (other than where a new holding company is imposed on the Group), such as the current circumstances where unvested Awards will not vest as a result of the Offer being declared wholly unconditional, all unvested Awards shall vest. The Trustee shall appoint any GDRs which they then hold which are not required to satisfy any vested Awards to Award Holders in proportion to the total cumulative number of GDRs which each Award Holder has received or is entitled to receive. Award Holders may by agreement with the Trustee and the acquiring company exchange their Awards for equivalents awards over shares in the acquiring company.

(f) Scheme limits

1,500,000 GDRs have been contributed to the Trust for the purposes of the SEECP. Once the Offer has been declared wholly unconditional, these will be exchanged for BGH Offer Shares. No further

BGH Offer Shares will be subscribed for by the Trust for the purposes of the SEECP after the Offer has been declared wholly unconditional.

No Awards may be made to any individual eligible employee which would breach any regulation, order, requirement or guidelines applicable to the Bank or BGH.

(g) Adjustment of Awards

In the event of any rights or capitalisation issue, sub-division, consolidation, reduction or other variation of BGH's share capital, the number of GDRs (or, after the Awards have been exchanged for Awards over BGH Offer Shares, BGH Offer Shares) subject to any Award shall be adjusted in such manner as the parties to the relevant Award shall agree and in default of agreement as the Auditors confirm to be fair and reasonable provided that the aggregate amount payable on the satisfaction of an Award is not increased.

(h) Participants' rights

Benefits under the SEECP are not pensionable.

Awards are not transferable, other than to a Participant's personal representatives in the event of the Participant's death.

(i) Rights attaching to GDRs or BGH Offer Shares

GDRs (or, after the Offer has been declared wholly unconditional, BGH Offer Shares) allotted or transferred under the SEECP will rank *pari passu* with GDRs (or, after the Offer has been declared wholly unconditional, BGH Offer Shares) of the same class then in issue (except in respect of entitlements arising prior to the date of allotment or transfer).

(j) Amendments

The Trustee may from time to time amend the rules of the SEECP provided that no alteration or addition shall be made to the advantage of existing or new Award Holders regarding eligibility conditions, the vesting and lapse of Awards, takeover and liquidation, variation of share capital, and amendment of the rules, without the consent of the Bank Supervisory Board and, the BGH Remuneration Committee, except for minor amendments to benefit the administration of the SEECP, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the SEECP.

(k) Termination

The plan shall terminate upon the tenth anniversary of its adoption by the Trustee or at any earlier time by the passing of a resolution by the Trustee. Termination of the plan shall be without prejudice to the subsisting rights of Award Holders.

24. Other Awards

In July 2009, the Bank Supervisory Board approved and in September 2009 awarded 420,000 Bank Shares and/or shares in the form of restricted GDRs to 23 executives of the Bank as part of a one-off award, which vested on 1 October 2012.

25. Pensions

25.1 The Group participates in a pension scheme for its employees. A description of this scheme is included in Part XVII of this Prospectus ("Directors, Senior Management, Corporate Governance and Employees-Group Pension Scheme").

25.2 The issue of the BGH Offer Shares pursuant to the Offer will not result in any changes to the provision of retirement benefits. It is intended that the same Group employees will continue to operate and participate in the pension scheme. No changes to the provision of retirement benefits will occur as a result of the Offer being declared wholly unconditional.

26. Subsidiaries

26.1 Currently, the Bank is the principal holding company of the Group. The principal subsidiaries and subsidiary undertakings of the Bank as of 30 June 2011 were as follows:

Name	Registered office	Activity	Percentage of capital held	Amount of issued capital
Consolidated Subsidiaries — Georgia:				
JSC BG Capital (formerly known as JSC Galt and Taggart Securities)	Tbilisi, Georgia	Brokerage and asset management	100.0% - Bank of Georgia	GEL 5,148,275
BG Tax Advisory, LLC (formerly known as Galt & Taggart Tax Advisory, LLC)	Tbilisi, Georgia	Tax consulting	100.0% - BG Capital	GEL 5,000
BG Commodities (Georgia), LLC	Tbilisi, Georgia	Commodity Trading	100.0% - BG Capital	GEL 60,000
JSC Galt and Taggart Holdings	Tbilisi, Georgia	Investment	100.0% - Bank of Georgia	GEL 9,735,961
JSC Liberty Consumer (formerly known as JSC Galt and Taggart Capital)	Tbilisi, Georgia	Investment	13.60% - Bank of Georgia 51.64% - Galt and Taggart Holdings 0.08% - BG Capital	GEL 603,058
JSC SB Real Estate	Tbilisi, Georgia	Real estate	85.88% - Bank of Georgia 14.12% - Galt and Taggart Holdings	GEL 2,412,283
Caucasus Autohouse, LLC	Tbilisi, Georgia	Real Estate	100.0% - Real Estate	GEL 200
JSC Intertour	Tbilisi, Georgia	Travel agency	97.02% - Liberty Consumer	GEL 12,082
Holiday Travel, LLC	Tbilisi, Georgia	Travel agency	100.0% - Intertour	GEL 2,000
JSC Prime Fitness	Tbilisi, Georgia	Fitness centre	100.0% - Liberty Consumer	GEL 527,822
MetroNet, LLC	Tbilisi, Georgia	Communication services	100.0% - GC Holdings	GEL 455,200
JSC Insurance Company Aldagi BCI	Tbilisi, Georgia	Insurance	51.0% - Galt and Taggart Holdings 49.0% - Bank of Georgia	GEL 7,242,802
JSC My Family Clinic	Tbilisi, Georgia	Healthcare	100.0% - Insurance Company Aldagi BCI	GEL 1,131,680
JSC Kutaisi St. Nicholas Surgery Hospital	Kutaisi, Georgia	Healthcare	55.0% - Insurance Company Aldagi BCI	GEL 50,000
Kutaisi Regional Clinical Hospital, LLC	Kutaisi, Georgia	Healthcare	100% - My Family Clinic	GEL 435,000
Georgian Leasing Company, LLC	Tbilisi, Georgia	Leasing	100.0% - Bank of Georgia	GEL 3,180,000
JSC GC Holdings	Tbilisi, Georgia	Investment	100.0% - Galt and Taggart Holdings	GEL 8,043,478
JSC Georgian Card	Tbilisi, Georgia	Card processing	71.69% - GC Holdings 0.09% - Liberty Consumer	GEL 3,500,000
Direct Debit Georgia, LLC	Tbilisi, Georgia	Electronic payment services	100.0% - GC Holdings	GEL 200
JSC United Securities Registrar of Georgia	Tbilisi, Georgia	Registrar	100.0% - Bank of Georgia	GEL 630,000

Name	Registered office	Activity	Percentage of capital held	Amount of issued capital
Metro Service +, LLC . .	Tbilisi, Georgia	Business servicing	80.0% - Galt and Taggart Holdings 20.0% - Bank of Georgia	GEL 2,850,200
Planeta Forte, LLC	Tbilisi, Georgia	Newspaper retail	51.0% - Liberty Consumer	GEL 1,270
JSC Teliani Valley	Tbilisi, Georgia	Winery	51.78% - Liberty Consumer 0.07% - BG Capital	GEL 539,962
Teliani Trading (Georgia), LLC	Tbilisi, Georgia	Distribution	100.0% - Teliani Valley	GEL 200
Le Caucase, LLC	Tbilisi, Georgia	Cognac Production	100.0% - Teliani Valley	GEL 200
Kupa, LLC	Tbilisi, Georgia	Oak Barrel Production	70% - Teliani Valley	GEL 200
Consolidated Subsidiaries — International:				
JSC Belarusky Narodny Bank	Minsk, Belarus	Banking	36.53% - Bank of Georgia 43.46% - Benderlock Investments Limited	BYR 87,650,740,100
BNB Leasing, LLC	Minsk, Belarus	Leasing	99.9% - Belarusky Narodny Bank	BYR 5,000,000
Benderlock Investments Limited	Nicosia, Cyprus	Investments	100.0% - Galt and Taggart Holdings Limited	EUR 10,502,000
BG Commodities (Ukraine), LLC	Kiev, Ukraine	Commodity Trading	99.5% - BG Capital 0.5% - Galt and Taggart Holdings Limited	USD 280,000
Galt and Taggart Holdings Limited . . .	Nicosia, Cyprus	Investment	94.34% - BG Capital 5.66% - Bank of Georgia	EUR 608,182
BG Trading Limited (formerly known as Galt & Taggart Trading Limited)	Nicosia, Cyprus	Investment	100.0% - Galt and Taggart Holdings Limited	EUR 564,300
BG Capital (Ukraine), LLC (formerly known as Galt and Taggart Securities (Ukraine), LLC)	Kiev, Ukraine	Brokerage	100.0% - Galt and Taggart Holdings Limited	UAH 7,000,000
BG Capital (Belarus), LLC (formerly known as Galt and Taggart Securities (Belarus), LLC)	Minsk, Belarus	Brokerage	99.9% - Galt and Taggart Holdings Limited 0.1% - BG Trading Limited	USD 70,000
Brooksby Investments Limited	Nicosia, Cyprus	Investments	100.0% - Galt and Taggart Holdings Limited	EUR 2,000
Georgia Financial Investments, LLC . . .	Ramat Gan, Israel	Information Sharing and Market Research	100.0% - Galt and Taggart Holdings	ILS 100
Teliani Trading (Ukraine), LLC	Kiev, Ukraine	Distribution	100.0% - Teliani Valley	UAH 40,000

Name	Registered office	Activity	Percentage of capital held	Amount of issued capital
Bank of Georgia Representative Office UK Limited	London, United Kingdom	Information Sharing and Market Research	100.0% - Galt and Taggart Holdings	GBP 1
Minority Shareholding Interests —Georgia:				
JSC iCall	Tbilisi, Georgia	Call centre	27.0% - Liberty Consumer	GEL 20,000
JSC N Tour	Tbilisi, Georgia	Travel Services	30.0% - Liberty Consumer	GEL 2,857
JSC Hotels and Restaurants Management Group — m/Group . .	Tbilisi, Georgia	Management	25.0% - Liberty Consumer	GEL 30,000
JSC Caucasus Automotive Retail . . .	Tbilisi, Georgia	Car retail	30.0% - Liberty Consumer	GEL 1,429
Ad Style, LLC	Tbilisi, Georgia	Advertising	32.45% - Prime Fitness	GEL 2,000
JSC Georgian Stock Exchange.	Tbilisi, Georgia	Stock Exchange	32% - BG Capital	GEL 30,000
JSC Tbilisi Inter-bank Currency Exchange . .	Tbilisi, Georgia	Currency Exchange	27.27% - Bank of Georgia	GEL 440,000
JSC Binatmshenebeli . . .	Tbilisi, Georgia	Construction	19.99% - Bank of Georgia 2.79% - Galt and Taggart Holdings	USD 464,123
PJSC Bank Pershyi (formerly known as JSC BG Bank)	Kiev, Ukraine	Banking	19.35% - Bank of Georgia (1)	UAH 271,631,000

Upon the Offer being declared wholly unconditional, BGH will become the new holding company of the Group. BGH's percentage holding in the Bank will depend upon the level of acceptances of the Offer.

27. Material subsidiaries

27.1 The BGH Directors consider ABCI to be the Bank's only material subsidiary. Prior to the sale of an 80% equity interest in BG Bank in February 2011, the Bank's management also considered BG Bank to be a material subsidiary of the Bank.

ABCI

The Group provides insurance-related products and services through its wholly-owned subsidiary, ABCI. ABCI operates in both the life insurance and non-life insurance markets in Georgia, although its primary focus is on the provision of non-life insurance-related products and services.

ABCI is a leader in the Georgian life and non-life insurance markets, based on a market share of 19.5% of the life and 16.8% of the non-life insurance markets, as of 30 June 2011 (based on gross written premiums), compared to a market share of 23.2% and 18.4%, respectively, as of 31 December 2010, a market share of 35.9% and 18.6%, respectively, as of 31 December 2009 and a market share of 32.0% and 22.6%, respectively, as of 31 December 2008 (in each case, according to statistical information published by the NBG). ABCI's market share in both the life insurance and non-life insurance markets decreased in 2010 primarily because the ABCI stopped providing life insurance and non-life insurance products to certain categories of customers where it was less profitable due to intensive price competition in those markets and opting not to participate in one of the rounds of the state-subsidised health insurance programmes (due to the Bank's management's belief that this may not be profitable). ABCI provides a wide range of corporate and consumer insurance and related products in the following areas: property and casualty; liability, including general third party liability, motor third party liability, carriers' liability, professional indemnity, bankers' blanket bond, product liability and employer liability; personal risks, including health insurance, personal accident, travel and term life insurance, performance bonds and guarantees and agriculture. ABCI cross-sells its insurance products with the Bank's retail and corporate banking products. ABCI operates Aldagi BCI Assistance, a 24-hour telephone helpline for its health insurance clients. For further information, see Part XIII "Description of Business — Synergistic Businesses — Insurance and Healthcare — Insurance".

BG Bank

In late 2006, the Bank acquired a 9.9% interest in BG Bank (formerly Universal Bank for Development and Partnership) and, in October 2007, the Bank acquired an additional 88.85% equity interest in BG Bank, resulting in a total equity interest of 98.77%. On 3 March 2008, the shareholders of BG Bank approved the increase of BG Bank's share capital from UAH 140 million to UAH 265 million through the issuance of 125 million ordinary registered shares, each with a nominal value of UAH 1.00 per share. Following the capital increase, the Bank's ownership interest in BG Bank increased to 99.35%. In February 2011, the Group disposed of an 80.0% equity interest in BG Bank, its banking subsidiary in Ukraine, to a number of Ukrainian individuals. For further, see Part X "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview of Acquisitions and Disposals — Disposals". As of 30 June 2011, the Group's equity interest in BG Bank was 19.35%. BG Bank (subsequently rebranded as PJSC Bank Pershyi) is no longer consolidated in the Group's financial statements.

BG Bank had total assets of UAH 1,014.3 million as of 31 December 2010 and UAH 935.5 million (US$111.6 million) as of 31 December 2009. BG Bank's gross loans comprised UAH 895.4 million as of 31 December 2010 and UAH 743.2 million (US$93.4 million) as of 31 December 2009. Its amounts due to customers were UAH 885.7 million as of 31 December 2010 and UAH 623.4 million (US$78.3 million) as of 31 December 2009. BG Bank's shareholder's equity was UAH 122.5 million as of 31 December 2010 and UAH 140.1 million as of 31 December 2009. As of 1 January 2011, BG Bank ranked number 73 among Ukrainian Banks in terms of total assets, with 0.16% market share. BG Bank contributed UAH 26.9 million net loss for the year ended 31 December 2010 and UAH 163.1 million (US$20.9 million) net loss for the year ended 2009.

As of 31 December 2010, BG Bank's loans past due more than 90 days accounted for 17.8% of its total gross loans compared to 15.5% and 1.4% as of, 2009 and 2008, respectively and, as of the same date, its Restructured Loans accounted for 28.0% of total gross loans compared to 39.9% and 11.2% as of 2009 and 2008, respectively. BG Bank's loan impairment charges decreased to GEL 9.7 million for the year ended 2010 compared to GEL 35.0 million for the year ended 2009 and GEL 18.0 million for the year ended 31 December 2008. GEL 9.7 million (or 19.4%), GEL 35.0 million (or 29.4%) and GEL 18.0 million (or 14.6%) of the Group's loan impairment charges in the years 2010, 2009 and 2008, respectively, were related to the loan book of BG Bank.

28. Statutory Auditors

28.1 Ernst & Young LLC, who are registered to carry out audit work by the Audit Committee of the Parliament of Georgia, have audited and rendered unqualified audit reports on the accounts of the Group for the six months ended 30 June 2011 and for the three years ended 2010, 2009 and 2008 in accordance with international auditing standards. The registered address of Ernst & Young LLC is Kote Abkhazi Street, 44, Tbilisi, 0105, Georgia.

29. Dividends and dividend policy

29.1 The following table provides information on the dividend payments made by the Bank on its shares in respect of the years indicated.

	Bank Shares outstanding at the Record Date[1]	Aggregate Distributed Dividends	Dividend per Bank Share	Dividend Payment as a % of Consolidated Profit (Loss) for the Period
		(in thousands of Lari)	*(in Lari)*	*(%)*
31 December 2007 . .	27,154,918	—	—	0.00%
31 December 2008 . .	31,253,283	—	—	0.00%
31 December 2009 . .	31,306,071	—	—	0.00%
18 July 2010.	31,368,120	9,408	0.3	11.4%

(1) The Record Date is a date established before the relevant GMS at which the amount of the dividend, if any, is declared for the previous year. For the years where no dividend was declared, the number of shares outstanding are as of 31 December of the relevant year.

29.2 The BGH Board's intention is to retain the existing dividend policy of the Bank, subject to the requirements of the Companies Act. Following Admission, BGH (as a holding company whose principal assets are the shares of its subsidiaries) will rely primarily on dividends and other statutorily and contractually permissible payments from its subsidiaries to generate reserves necessary to meet its obligations and to pay dividends to its shareholders. The regulatory systems under which the Group operates and certain contractual arrangements to which the Bank and/or its subsidiaries are party restrict, to a certain extent, their ability to pay dividends and/or to otherwise provide cash to BGH, which may, in turn, restrict BGH's ability to pay dividends.

30. Market Quotations

30.1 Set out below are the closing prices of the GDRs as derived from the London Stock Exchange's Daily Official List and for the Bank Shares as derived from the Georgian Stock Exchange on:

(a) the first Business Day of May and November, starting from 1 May 2008; and

(b) 15 December 2011 (being the latest practicable date prior to the date of this Prospectus).

Date	London Stock Exchange (GDRs)[(1)]	Georgian Stock Exchange (Bank Shares)[(1)]
	(US$)	*(GEL)*
15 December 2011	12.26	19.0
1 November 2011	12.0	18.5
2 May 2011	19.3	31.5
1 November 2010	16.5	29.0
3 May 2010	12.0	20.0
2 November 2009	7.5	12.4
1 May 2009	4.0	6.4
3 November 2008	6.6	10.0
1 May 2008	24.25	30.0

Note:

(1) the closing price is the closing price for that day's trading or, if no trading occurred on that day, the closing price on the last business day on which trading occurred.

31. UK Taxation

31.1 The following summary is intended as a general guide only and relates only to certain limited aspects of the UK tax consequences for shareholders of holding BGH Offer Shares. It is based on current UK tax law and what is understood to be the current practice of HMRC, both of which are subject to change, possibly with retrospective effect. The summary applies only to shareholders who are resident and, if individuals, ordinarily resident and domiciled in the UK for taxation purposes, who hold their BGH Offer Shares as an investment (other than under an individual savings account), who are the absolute beneficial owners of their BGH Offer Shares, who have not (and are not deemed to have) acquired their BGH Offer Shares by virtue of an office or employment (whether current, historic or prospective) and are not officers or employees of any member of the Group. In addition, these comments may not apply to certain classes of shareholder such as dealers in securities, collective investment schemes and insurance companies. It is not anticipated that the issue of Class A Shares (if any) resulting from the capitalisation of any merger reserve created in connection with the Offer and their subsequent cancellation as part of the proposed Reduction of Capital will give rise to any adverse tax consequences for BGH Shareholders in the UK.

31.2 If any recipient of this Prospectus is in any doubt about its tax position, it should consult its own professional adviser without delay.

31.3 The statements in Paragraphs 31.6 "— Stamp duty and Stamp Duty Reserve Tax —" and 31.6(d) "— Inheritance Tax" below apply to all Shareholders, irrespective of their place of residence.

31.4 Taxation of dividends on BGH Offer Shares

(a) BGH is not required to withhold tax when paying a dividend. Liability to tax on dividends will depend upon the individual circumstances of a BGH Shareholder.

(b) An individual BGH Shareholder who is resident for tax purposes in the United Kingdom and who receives a dividend from BGH will generally be entitled to a tax credit equal to one-ninth of the amount of the dividend received, which is equivalent to 10% of the aggregate of the dividend received and the tax credit (the **"gross dividend"**), and will be subject to income tax on the gross dividend. An individual UK resident BGH Shareholder who is subject to income tax at a rate or rates not exceeding the basic rate will be liable to tax on the gross dividend at the rate of 10%, so that the tax credit will satisfy the income tax liability of such a BGH Shareholder in full. Where the tax credit exceeds the BGH Shareholder's tax liability the BGH Shareholder cannot claim repayment of the tax credit from HMRC.

(c) An individual UK resident BGH Shareholder who is subject to income tax at the higher rate or the additional rate will be liable to income tax on the gross dividend at the rate of 32.5% or 42.5% respectively to the extent that such sum, when treated as the top slice of that BGH Shareholder's income, falls above the threshold for higher rate or additional rate income tax. After taking into account the 10% tax credit, a higher rate taxpayer will therefore be liable to additional income tax of 22.5% of the gross dividend, equal to 25% of the net dividend. After taking into account the 10% tax credit, an additional rate taxpayer will be liable to additional income tax of 32.5% of the gross dividend, which is equal to 36.1% of the net dividend.

(d) Corporate BGH Shareholders who are UK resident will be taxed on dividends paid by BGH under legislation introduced by the Finance Act 2009. Under that legislation, dividends paid by one UK resident company to another are prima facie taxable, subject to certain limited classes of exemption. Although it is likely that most dividends paid on BGH Offer Shares to UK resident corporate shareholders would fall within one or more of the classes of dividend qualifying for exemption, the exemptions are not comprehensive and are also subject to anti-avoidance rules. BGH Shareholders within the charge to corporation tax should consult their own professional advisers.

(e) UK resident shareholders who are not liable to UK tax on dividends, including pension funds and charities, are not entitled to claim repayment of the tax credit.

(f) BGH Shareholders who are resident outside the United Kingdom for tax purposes will not generally be able to claim repayment of any part of the tax credit attaching to dividends received from BGH, although this will depend on the existence and terms of any double taxation convention between the United Kingdom and the country in which such BGH Shareholder is resident. A BGH Shareholder resident outside the United Kingdom may also be subject to taxation on dividend income under local law. A BGH Shareholder who is resident outside the United Kingdom for tax purposes should consult his or her own tax adviser concerning his or her tax position on dividends received from BGH.

31.5 UK taxation consequences of disposing of BGH Offer Shares in the future

(a) A disposal of BGH Offer Shares by a BGH Shareholder may, depending on individual circumstances, give rise to a chargeable gain or allowable loss for capital gains tax (**"CGT"**) purposes.

(b) A disposal of BGH Offer Shares by a BGH Shareholder who is not resident in the United Kingdom for tax purposes but who carries on a trade, profession or vocation in the United Kingdom through a branch, agency or permanent establishment and has used, held or acquired BGH Offer Shares for the purposes of such trade, profession or vocation or such branch, agency or permanent establishment may, depending on individual circumstances, give rise to a chargeable gain or allowable loss for CGT purposes.

(c) A BGH Shareholder who is an individual and who is temporarily non-resident in the United Kingdom for a period of less than five complete tax years may, under anti-avoidance legislation, still be liable to UK taxation on his or her return to the United Kingdom on a chargeable gain realised on the disposal or part disposal of BGH Offer Shares during the period when he or she is non-resident.

(d) For corporate shareholders only, indexation allowance on the relevant proportion of the original allowable cost should be taken into account for the purposes of calculating a chargeable gain (but not an allowable loss) arising on a disposal or part disposal of BGH Offer Shares.

31.6 Stamp duty and Stamp Duty Reserve Tax

(a) Transfers of BGH Offer Shares

Stamp duty at the rate of 0.5% (rounded up to the next multiple of £5) of the amount or value of the consideration given is generally payable on an instrument transferring BGH Offer Shares. An exemption from stamp duty is available on an instrument transferring BGH Offer Shares where the amount or value of the consideration is £1,000 or less, and it is certificated on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions for which the aggregate consideration exceeds £1,000. A charge to Stamp Duty Reserve Tax ("**SDRT**") will also arise on an unconditional agreement to transfer BGH Offer Shares (at the rate of 0.5% of the amount or value of the consideration payable). However, if within six years of the date of the agreement becoming unconditional an instrument of transfer is executed pursuant to the agreement, and stamp duty is paid on that instrument, any SDRT already paid will be refunded (generally, but not necessarily, with interest) provided that a claim for payment is made, and any outstanding liability to SDRT will be cancelled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee.

(b) BGH Offer Shares held through CREST

Paperless transfers of BGH Offer Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5% of the amount or value of the consideration. CREST is obliged to collect SDRT on relevant transactions settled within the system. Under the CREST system, no stamp duty or SDRT will arise on a transfer of BGH Offer Shares into the system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5%) will arise.

(c) BGH Offer Shares held through Clearance Systems or Depositary Receipt Arrangements

Under UK law where BGH Offer Shares are issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will generally be payable at the higher rate of 1.5% of the amount or value of the consideration payable or, in certain circumstances, the value of the BGH Offer Shares (rounded up to the next multiple of £5 in the case of stamp duty). This liability for stamp duty or SDRT will strictly be accountable by the depositary or clearance service operator or their nominee, as the case may be, but will, in practice, generally be reimbursed by participants in the clearance service or depositary receipt scheme. Transfers within the clearance service, and transfers of depositary receipts, are then generally made free of SDRT or stamp duty. Clearance services may opt, provided certain conditions are satisfied, for the normal rates of stamp duty or SDRT to apply to issues or transfers of BGH Offer Shares into, and to transactions within, such services instead of the 1.5% charge generally applying to an issue or transfer of BGH Offer Shares into the clearance service and instead of the exemption from SDRT on transfers of BGH Offer Shares whilst in the service.

Following a European Court of Justice judgment, HMRC have confirmed that they will no longer seek to apply the 1.5% SDRT charge on an issue of shares into a clearance service or depositary receipt arrangement within the European Union, on the basis that the charge is not compatible with EU law. However, the judgment may have broader application than HMRC currently accept. Anti-avoidance rules have also been enacted with effect from 1 October 2009 in relation to schemes under which shares are issued to an EU depositary receipt system or clearance service without a 1.5% charge being paid and subsequently transferred to a non-EU depositary receipt system or clearance service. **Accordingly specific professional advice should be sought before paying the 1.5%. SDRT or stamp duty charge in any circumstances.**

Special rules apply to agreements made by, amongst others, intermediaries.

(d) Inheritance Tax

The BGH Offer Shares will be assets situated in the United Kingdom for the purposes of UK inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax even if the holder is neither domiciled in the United Kingdom nor deemed to be domiciled there under certain rules relating to long residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit.

Special rules also apply to close companies and to trustees of settlements who hold BGH Offer Shares, bringing them within the charge to inheritance tax. BGH Shareholders should consult an appropriate tax adviser if they make a gift or transfer at less than market value or intend to hold any BGH Offer Shares through trust arrangements.

32. US Taxation

32.1 The following is a general summary based on present law of certain US federal income tax considerations relevant to the exchange of BGH Offer Shares for Existing Securities pursuant to the Offer and to the ownership of BGH Offer Shares. It addresses only US Holders (as defined below) that exchange Existing Securities pursuant to the Offer, hold their Existing Securities as capital assets and use the US Dollar as their functional currency. This summary is for general information only. It is not a complete description of all the tax considerations that may be relevant to a particular US Holder. It does not consider the circumstances of holders subject to special tax regimes, such as banks, insurance companies, regulated investment companies, dealers, traders in securities that elect mark-to-market treatment, insurance companies, tax-exempt entities or persons holding shares or GDRs as part of a hedge, straddle, conversion or other integrated financial transaction. It does not address persons resident or ordinarily resident in the United Kingdom and persons holding Existing Securities through a permanent establishment or fixed base outside the United States. It does not consider consequences for persons that own (or are deemed to own) 10% or more (by voting power) of Existing Securities or that will own (or be deemed to own) 5% or more (by voting power or value) of the shares of BGH. It does not address US state or local tax considerations. The discussion is not a substitute for tax advice.

32.2 BGH believes and this discussion assumes that it is not and is not likely to become a passive foreign investment company (**"PFIC"**) for US federal income tax purposes. BGH's status as a PFIC must be determined annually, and it therefore could change. If BGH were to be a PFIC in any year, US Holders could suffer material adverse tax consequences.

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON INVESTORS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

32.3 As used in this section only, "US Holder" means a beneficial owner of shares or GDRs that for US federal income tax purposes is (i) an individual citizen or resident of the United States, (ii) a corporation or other business entity organised in or under the laws of the United States or its political subdivisions, (iii) a trust (1) that elects to be treated as a United States person within the meaning of section 7701(a)(30) of the Code for US federal income tax purposes or (2) (a) over the administration of which a US court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control; or (iv) an estate the income of which is subject to US federal income taxation regardless of its source.

32.4 The US federal tax consequences to a partner in a partnership generally will depend upon the status of the partner and the activities of the partnership. US Holders that are partnerships are urged to consult their own tax advisers about the tax consequences to their partners of receiving BGH Offer Shares in connection with the Offer and owning and disposing of BGH Offer Shares or GDRs.

32.5 Holders of GDRs generally will be treated for US federal income tax purposes as holding the shares represented by the GDRs. The substitution of BGH Offer Shares for GDRs as part of the Offer will be treated as an exchange by holders of GDRs of Bank Shares for BGH Offer Shares subject to the treatment described below. After the implementation of the Offer, no gain or loss will be recognised upon the exchange of GDRs for BGH Offer Shares as long as the Depositary has not taken any action inconsistent with either the material terms of the deposit agreement or the US Holder's ownership of the underlying shares.

33. Share Exchange in the Offer

33.1 The Bank and BGH intend to treat the Offer as a tax-free reorganisation for US federal income tax purposes under section 368(a) of the US Internal Revenue Code. The proper US federal income treatment of the Offer is not certain, however, and neither the Bank nor BGH has sought a ruling from US tax authorities or an opinion from US tax counsel on the proper treatment of the Offer. **Although the summary in this section assumes that the Offer constitutes a tax-free reorganisation, each Holder should consult its own tax adviser about the proper US federal, state and local income tax treatment of the Offer.**

33.2 Assuming that the Offer is a tax-free reorganisation, a US Holder will recognise no gain or loss on an exchange of Bank Shares for BGH Offer Shares. A US Holder's basis in BGH Offer Shares will equal its aggregate adjusted tax basis in the Bank Shares exchanged, and its holding period in BGH Offer Shares will include the period it held the Bank Shares. If a US Holder acquired different blocks of Bank Shares at different times or at different prices, the Holder's basis and holding period in BGH Offer Shares will be determined separately for each block of shares.

33.3 A US Holder may be required to attach to its tax return for the year in which it receives BGH Offer Shares a statement regarding application of the tax-free reorganisation requirements (including information about the Bank Shares it exchanged and BGH Offer Shares it received) and to maintain certain records regarding the Offer. US Holders should consult with their tax advisers regarding whether such a statement is required in their particular circumstances.

33.4 If the Offer were not a tax-free reorganisation, a US Holder receiving BGH Offer Shares in exchange for Bank Shares would recognise capital gain or loss equal to the difference between (x) the fair market value of BGH Offer Shares as of the effective date of the exchange and (y) its adjusted tax basis in the Bank Shares exchanged. Any gain would be long-term gain if the US Holder held the Bank Shares for more than one year. Any loss would be long-term loss if the US Holder held the Bank Shares for more than one year. Deductions for capital losses are subject to substantial limitations. Any gain or loss generally would be treated as arising from US sources. The holder would have a tax basis in BGH Offer Shares equal to their fair market value as of the effective date of the exchange and a holding period for BGH Offer Shares beginning on the day following the exchange date.

33.5 It is not anticipated that the issue of Class A Shares (if any) resulting from the capitalisation of any merger reserve created in connection with the Offer and subsequent cancellation as part of the proposed Reduction of Capital will give rise to any adverse tax consequences for US Holders.

34. Dividends

34.1 US Holders generally must include any dividends paid on BGH Offer Shares in their gross income as ordinary income from foreign sources. Dividends will not be eligible for the dividends-received deduction generally available to corporations. Subject to applicable holding period and other limitations, the US Dollar amount of dividends received on the BGH Offer Shares prior to 31 December 2012 by certain non-corporate US Holders will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends." Dividends paid on the BGH Offer Shares should be treated as qualified dividends if (i) BGH is eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service (**"IRS"**) has approved for the purposes of the qualified dividend rules, (ii) BGH was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a PFIC, and (iii) the dividends satisfy certain eligibility (including holding period) criteria. The US-United Kingdom income tax treaty (**"Treaty"**) has been approved by the IRS for the purpose of the qualified dividend rules. In computing its foreign tax credit limitation, a non-corporate US Holder that receives a dividend taxed at the reduced rate for qualified dividend income may take into account only the portion of the dividend effectively taxed at the highest applicable marginal rate. The US tax treatment of dividends received on the BGH Offer Shares after 31 December 2012 by certain non-corporate US Holders is uncertain. If the US Congress takes no action, any dividends paid after 31 December 2012 will be taxed at the regular tax rates applicable to ordinary income. US Holders should consult their US tax advisers regarding whether dividends will be entitled to qualified dividend treatment.

34.2 US Holders that receive dividends in a currency other than US Dollars must include in income a US Dollar amount determined at the spot rate on the date of receipt whether or not they convert the currency into US Dollars at that time. A US Holder will have a basis in the non-US currency received equal to its US Dollar value on the date of receipt. Gain or loss on a subsequent conversion or other disposition of the non-US currency for a different US Dollar amount generally will be treated as ordinary income or loss from sources within the United States for foreign tax credit limitation purposes. If dividends received in a currency other than the US Dollar are converted into US Dollars on the day they are received, the US Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income.

35. Dispositions

35.1 US Holders generally will recognise capital gain or loss on the sale or other disposition of BGH Offer Shares in an amount equal to the difference between their adjusted tax basis in the shares and the US Dollar value of the amount realised. Any gain will be long-term gain if the US Holder has held the Bank Shares and BGH

Offer Shares for a combined period longer than one year. Any loss will be long-term loss if the US Holder has held the Bank Shares and BGH Offer Shares for a combined period longer than one year or to the extent the US Holder previously received qualifying dividend income in excess of 10% of the US Holder's basis in its BGH Offer Shares. Deductions for capital losses are subject to substantial limitations. Any gain or loss generally will be treated as arising from US sources.

35.2 With respect to the sale or exchange of shares, the amount realised generally will be the US Dollar value of the payment received determined on (i) the date of receipt of payment in the case of a cash basis US Holder and (ii) the date of disposition in the case of an accrual basis US Holder. If shares are treated as traded on an "established securities market", a cash basis taxpayer or, if it so elects, an accrual basis taxpayer, will determine the US Dollar value of the amount realised by translating the amount received at the spot rate of exchange on the settlement date of the sale. A US Holder will have a tax basis in the foreign currency received equal to the US Dollar amount realised. Any currency exchange gain or loss realised on a subsequent conversion of the foreign currency into US Dollars for a different amount generally will be treated as ordinary income or loss from sources within the United States. However, if such foreign currency is converted into US Dollars on the date received by the US Holder, a cash basis or electing accrual basis US Holder should not recognise any gain or loss on such conversion.

35.3 Under current United Kingdom tax law "— United Kingdom Taxation — Taxation of Capital Gains", no United Kingdom tax will be imposed on gain from the sale or disposition of shares. If United Kingdom tax is imposed on sales or exchanges, US Holders should consult their tax advisers as to the US tax consequences of such tax, including the possible application of the Treaty.

36. Reporting and Backup Withholding

36.1 Payments of dividends on shares and other proceeds with respect to shares by a US paying agent or other US intermediary will be reported to the IRS and to the US Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its US federal income tax returns. Certain US Holders (including, among others, corporations) are not subject to backup withholding. US Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption. The backup withholding rate is 28% for taxable years through 2012. Absent Congressional action, the backup withholding rate will rise to 31% for tax years beginning after 31 December 2012.

36.2 Backup withholding tax is not an additional tax. A holder generally will be entitled to credit any amounts withheld under the backup withholding rules against such holder's US federal income tax liability and may be entitled to a refund, provided the required information is furnished to the IRS in a timely manner.

36.3 A US Holder may be required specifically to report the receipt of BGH Offer Shares in the Offer. A US Holder also may be required specifically to report a sale or other taxable disposition of the Bank Shares, BGH Offer Shares or GDRs to the IRS if it recognises a foreign currency or other loss from a single transaction that exceeds, in the case of an individual or trust, $50,000 in a single taxable year or, in other cases, various higher thresholds. US Holders should consult their tax advisers about these possible reporting requirements.

36.4 Recently enacted legislation requires certain US Holders to report information with respect to their investment in BGH Offer Shares not held through an account with a financial institution to the IRS. Holders who fail to report required information could become subject to substantial penalties. Holders are encouraged to consult with their own tax advisers about information reporting requirements with respect to their investment in the shares or GDRs.

36.5 For taxable years beginning after 31 December 2012, certain US Holders, including individuals, estates, and trusts, will be subject to an additional 3.8% Medicare tax on unearned income. For individual US Holders, the additional Medicare tax applies to the lesser of (i) "net investment income", or (ii) the excess of "modified adjusted gross income" over $200,000 ($250,000 if married and filing jointly or $125,000 if married and filing separately). "Net investment income" generally equals the taxpayer's gross investment income reduced by the deductions that are allocable to such income. Investment income generally includes passive income such as interest, dividends, annuities, royalties, rents, and capital gains. US Holders are urged to consult their own tax advisers regarding the implications of the additional Medicare tax resulting from an investment in BGH Offer Shares.

THE SUMMARY ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR HOLDER. EACH HOLDER SHOULD CONSULT HIS OR HER OWN TAX ADVISER ABOUT THE TAX CONSEQUENCES OF PARTICIPATING IN THE SCHEME AND HOLDING BGH OFFER SHARES UNDER THE HOLDER'S OWN CIRCUMSTANCES.

37. Georgian Taxation

The analysis below is a general overview of certain Georgian tax implications related to BGH Offer Shares prepared in accordance with Georgian tax legislation. As with other areas of Georgian legislation, tax law and practice in Georgia is not as clearly established as that of more developed jurisdictions. It is therefore possible that changes may be made in the law or in the current interpretation of the law or current practice, including changes that could have a retroactive effect. Accordingly, it is possible that payments to be made to the BGH Offer Shareholders could become subject to taxation, or that rates currently in effect with respect to such payments could be increased, in ways that cannot be anticipated as of the date of this Prospectus. It is not anticipated that the issue of Class A Shares (if any) resulting from the capitalisation of any merger reserve created in connection with the Offer will give rise to any adverse tax consequences for resident BGH Shareholders (both individuals and legal entities) in Georgia, provided that there is no taxable gain realised (and it is considered unlikely such gain would be deemed to have been realised in connection with the Offer). Each holder of Bank Shares or GDRs should also consider any further tax implications that may be relevant to it under the laws and regulations of other countries in connection with its acceptance of the Offer, holding and sale of BGH Offer Shares.

Except where otherwise expressly stated, the analysis below is based on the assumption that the BGH is a UK resident for taxation purposes.

38. Tax Consequences of Acceptance of the Offer

38.1 If holders of Bank Shares (whether they are individuals or legal entities, resident or non-resident) decide to exchange their Bank Shares for BGH Offer Shares, the gain realised (if any) or deemed to be realised from the exchange will be considered a Georgian source taxable capital gain. Resident and non-resident legal entities are required to pay profit tax on capital gains at a flat rate of 15%. Capital gains of resident and non-resident individuals are subject to income tax at a flat rate of 20% (the effective income tax rate is expected to drop to 18% in 2013 and 15% thereafter). Non-resident legal entities and non-resident individuals will be under an obligation to properly report and pay profit/income tax to the Georgian tax authorities. In addition, if resident legal entities decide to exchange their GDRs for BGH Offer Shares, the gain realised (if any) or deemed to be realised from the exchange will be taxed at a flat rate of 15%. Please also see Part II "Risk Factors — Risks Relating to the Offer, BGH and BGH Offer Shares — Acceptance of the Offer is subject to risks and uncertainties which could have an adverse effect on Existing Holders".

38.2 Further, provided that the Existing Securities are considered to be publicly traded securities admitted to trading on a stock exchange listing with a free float exceeding 25% as of the end of the reporting year or the year before, capital gains received in respect of such Existing Securities will not be subject to taxation in Georgia. However, there are no clear guidelines on how the free float is to be determined and whether the GDRs listed on the London Stock Exchange (being a non-Georgian stock exchange) will be counted towards the free float for Georgian tax purposes.

38.3 Certain exemptions from income tax may be available to individual holders of Existing Securities if such individuals maintain ownership of assets for more than two calendar years (although varying interpretations may preclude the applicability of such exemption). In addition, certain relief on the taxation of capital gains may be available to non-resident holders of Existing Securities (whether individuals or legal entities) pursuant to the applicable double taxation treaties.

39. Taxation of dividends

39.1 Provided that BGH is a UK resident for taxation purposes, pursuant to the Tax Code of Georgia, payments of dividends on BGH Offer Shares to BGH Shareholders (whether they are individuals or legal entities, resident or non-resident) will not be subject to taxation in Georgia.

39.2 As a company that is incorporated in the United Kingdom, BGH will be resident in the United Kingdom for corporation tax purposes under United Kingdom domestic law. In addition, the BGH Directors intend that management of BGH and its affairs will be conducted, in terms of location and structure, such that BGH's place of effective management under the residence tie-breaker in Article 4(3) of the Treaty will be in the

United Kingdom. On this basis, the BGH Directors expect that BGH should not be treated as resident in Georgia for Georgian tax purposes.

39.3 It is possible that in the future, whether as a result of a change of law or the practice of a relevant tax authority or the renegotiation of the Treaty, or as a result of any change in the management or the conduct of BGH's affairs, BGH could become, or be regarded as having been, resident for tax purposes in Georgia. In this event, dividends paid by BGH may be subject to dividend tax in Georgia, currently at the rate of 5% (reducing to 3% with effect from 1 January 2013 and to 0% with effect from 1 January 2014). Provided that BGH Offer Shares are considered to be publicly traded securities admitted to trading on a stock exchange listing with a free float exceeding 25% as of the end of the reporting year or the year before, dividends paid in respect of such BGH Offer Shares will not be subject to taxation in Georgia. However, there are no clear guidelines on how the free float is to be determined and whether the BGH Offer Shares listed on the London Stock Exchange (being a non-Georgian stock exchange) will be counted towards the free float for Georgian tax purposes. In addition, relief from Georgian taxation of dividends may be available to non-resident holders of BGH Offer Shares (whether individuals or legal entities) pursuant to the applicable double taxation treaties.

40. Taxation of sale of BGH Offer Shares

40.1 The sale of BGH Offer Shares will not trigger any Georgian tax obligations on the part of the non-resident BGH Shareholders. The sale of BGH Offer Shares by resident legal entities will be subject to 15% profit tax.

40.2 An exemption is envisaged by the Tax Code of Georgia in the case of the sale of BGH Offer Shares provided that such shares are public securities admitted to trading on stock exchange listing with free float exceeding 25% as of the end of the reporting year or the year before. However, there are no clear guidelines on how the free float is determined and whether BGH Offer Shares (which are expected to be listed on the London Stock Exchange rather than a Georgian stock exchange) will be counted towards the free float for Georgian tax purposes.

41. Value Added Tax

Sale (supply) of the BGH Offer Shares is exempt from Value Added Tax in Georgia.

42. Other considerations

The Tax Code of Georgia expressly provides for the tax authorities to be able to re-examine the transaction price indicated by parties buying and selling securities, subject to certain procedural requirements.

43. GDR Facility

43.1 On 24 November 2006, the Bank entered into an English law governed deposit agreement (relating to an offering of GDRs representing Bank Shares) (the **"Deposit Agreement"**) with The Bank of New York (now renamed The Bank of New York Mellon). The Bank of New York Mellon (**"BNYM"**) is the depositary (the **"Depositary"**) under the Deposit Agreement. The Deposit Agreement sets out the terms of the Bank's GDR programme. The GDRs are currently admitted to the Official List and admitted to trading on the main market of the London Stock Exchange. One GDR currently represents one Bank Share. Under the terms of the GDR programme, the Depositary is entitled to receive certain remuneration and reimbursement from holders of GDRs for services provided pursuant to the Deposit Agreement.

43.2 The Deposit Agreement contains several undertakings given by the Bank, including, among others, an undertaking to: (i) use all reasonable endeavours to maintain a listing for the GDRs on the Official List and admission to trading on the London Stock Exchange; (ii) use all reasonable endeavours to appoint a successor depositary, as necessary; (iii) inform the Depositary if the shares issued by it do not rank *pari passu* with the other deposited shares; (iv) promptly inform the Depositary of a tax change that may result in the holders of GDRs or the Depositary suffering a material adverse tax consequence; (v) send the Depositary copies of the Bank's financial statements; and (vi) send certain notices to the Depositary and the custodian. Either the Bank or the Depositary, but in the case of the Depositary only if the Bank has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice that it wants to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the custodian.

43.3 Any GDR holder who accepts the Offer will agree to the cancellation of their GDRs as part of settlement of the Offer. See, Part IV "Information on the Offer — Procedures for acceptance of the Offer". The cancellation fee of US$0.05 per GDR ordinarily payable under the Deposit Agreement by a GDR Holder who surrenders its GDRs and requests delivery to it of the Bank Shares underlying its GDRs or who receives the net proceeds of the sale of those Bank Shares following termination of the Deposit Agreement will not be payable by GDR Holders who exchange their GDRs for BGH Offer Shares pursuant to the Offer as the Bank has agreed to pay the fee on their behalf.

Shortly after Admission, it is anticipated that the GDR facility will be cancelled and the Deposit Agreement will be terminated. See Part IV "Information on the Offer — Liquidity on Admission and in case of de-listing". If the GDR facility is cancelled after Admission, the Bank will pay the cancellation fee of US$0.05 per GDR ordinarily payable under the Deposit Agreement on the surrender of GDRs on behalf of any outstanding GDR holder.

44. Litigation

In the last 12 months, there have not been any governmental, legal or arbitration proceedings which may have or have had in the recent past, a significant effect on the financial position or profitability of BGH and/ or the Group. So far as BGH is aware, no such proceedings are pending or threatened.

45. Related Party Transactions

45.1 Save for (i) the Service Agreement with Irakli Gilauri described in paragraph 11 "BGH Executive Director" and the letters of appointment with the non-executive directors described in paragraph 12 "BGH Non-Executive Directors" of this Part XXI; and (ii) an agreement dated 15 December 2011 between Irakli Gilauri and BGH whereby BGH agreed to acquire the Subscriber Share from Irakli Gilauri for nil consideration conditionally upon and simultaneously with the issue of the first of the BGH Offer Shares, upon which the Subscriber Share will then be cancelled, since the date of its incorporation and up to the date of this Prospectus, BGH has not entered into any related party transactions.

45.2 In the ordinary course of its business, the Group has engaged, and continues to engage, in transactions with related parties. Related parties include, among others, shareholders, all managers and senior personnel of the Group, companies affiliated with the Group and certain shareholders of such affiliated companies. Save as disclosed in Note 33 (Related Party Disclosures) to the Six Month Audited Financial Statements included in this Prospectus (see pages F-102 to F-103), for the period from 1 January 2008 through the date of this Prospectus, no member of the Group has been a party to a related party transaction.

45.3 The Law of Georgia on Securities Market (**"Securities Law"**) sets certain approval and transparency requirements for transactions in which the members of the governing bodies of a reporting company and direct or indirect owners of 20% or more of its shares are regarded as **"Interested Parties"** (such cases are defined in the Securities Law). According to the Securities Law, a transaction involving Interested Parties requires approval by either the Bank Supervisory Board or the GMS. For transactions exceeding 10% of the value of the assets of the Bank, the approval of the GMS is required. The Group seeks to conduct all related party transaction on market terms and at market prices.

45.4 According to the Charter of the Bank, any transaction with related parties of the Bank shall be subject to the prior approval of the Supervisory Board if the value of such transaction does not exceed 50% of the assets of the Bank. If the value of such transaction exceeds 50% of the assets of the Bank, the transaction shall be approved by the GMS.

45.5 The Bank Supervisory Board is not permitted to delegate its authority to other bodies without the consent of the Bank Shareholders. In June 2007, the shareholders of the Bank consented to the Bank Supervisory Board's delegation to the Bank Management Board and/or respective committees of the authority to approve related party transactions, provided that (a) the cumulative value of the transaction(s) with any single related party does not exceed 1% of the regulatory capital of the Bank and (b) the members of the Bank Management Board and/or respective committee shall not participate or vote in any discussions regarding any transaction where such member has a conflict of interest. In October 2008, the Bank Supervisory Board delegated to the Bank Management Board and the Credit Committees the right to approve related party transactions in accordance with the Charter, provided that the Credit Committees are only authorised to approve transactions not exceeding US$500,000 or its equivalent per single related party. Pursuant to a decision dated 14 June 2010, the Bank Supervisory Board approved a new structure and a new set of regulations for the Credit Committee, including limits for the approval of loans to insiders. According to this decision, the newly approved limit per single insider individual requiring the Bank Supervisory Board's approval is US$300,000 and the limit per single insider legal entity requiring the Bank Supervisory Board's approval is US$1.0 million. According to the same decision of the Bank Supervisory Board, decisions on the insider deals below the above-mentioned limits should be approved at the Bank Management Board level.

45.6 In July 2007, the Bank was fined GEL 773,697 by the NBG in connection with breaches of NBG Order No. 116 dated 4 May 2001. The NBG alleged that two convertible subordinated loans issued to related parties, which were fully consolidated subsidiaries of the Bank, in December 2006 and January 2007 were on more favourable interest rates than the Bank would offer to third parties. Although the Bank believes that the interest rates were at arms' length, because of the lack of a developed domestic market for convertible loans, the Bank accepted the NBG finding and did not dispute the fine.

45.7 During the period starting from 2008, the NBG has investigated several related party transactions, including those transactions involving the Bank's shareholders and the associates of the Group. The findings of such investigations did not result in any fines or sanctions from the regulator.

46. Material Contracts

Certain related party agreements entered into by BGH or members of the Group are described in Paragraph 45 of this Part XXI, the Deposit Agreement relating to the GDR Facility is described in Paragraph 43 of this Part XXI, and the IFI Irrevocable Undertakings are described in Paragraph 5 of this Part XXI. In addition, the Irrevocable Undertakings are described in Paragraphs 7 and 8 of this Part XXI. The following are the other contracts, not being contracts entered into in the ordinary course of business, that have either been entered into by BGH or members of the Group within the two years immediately preceding the date of this Prospectus and are, or may be material or have been entered into at any time by BGH and/ or members of the Group and which contain an obligation or entitlement which is material to the Group as of the date of this Prospectus.

47. Material Loan Agreements

47.1 2008 Loan Agreements with the IFC and the European Bank for Reconstruction and Development

In December 2008, the Bank entered into loan agreements with IFC and EBRD relating to loan facilities in an aggregate amount of US$200 million, comprised of a separate US$100 million financing package on substantially the same terms from each of IFC and EBRD. The US$100 million financing package provided by each of IFC and EBRD is comprised of a US$50 million senior loan (the **"Senior Loans"**), a US$23.96 million subordinated loan (the **"Subordinated Loans"**) and a US$26.04 million convertible subordinated loan (the **"Convertible Subordinated Loans"**).

47.2 The Senior Loans

Pursuant to a loan agreement between the Bank and EBRD and a loan agreement between the Bank and IFC, each loan agreement being dated 30 December 2008, being on substantially the same terms and governed by English law (together, the **"Senior Loan Agreements"**), each of EBRD and IFC agreed to lend the Bank up to US$50 million. Interest under the Senior Loan Agreements is payable on a semi-annual basis. The EBRD Senior Loan is due to be repaid in seven equal (or as nearly equal as possible) semi-annual instalments beginning on 15 January 2011 and the IFC Senior Loan is due to be repaid in six equal (or as nearly equal as possible) semi-annual instalments beginning on 15 January 2011. The Senior Loan Agreements require the Bank's continuing compliance with certain financial covenants including, but not limited to, maintaining certain ratios with respect to capital adequacy, liquidity, foreign currency position, credit exposures and net loans to deposit ratio. The Senior Loan Agreements also contain certain affirmative covenants, negative covenants and furnishing of information covenants, including, among others, (i) affirmative covenants regarding the use of the loan proceeds; compliance with environmental procedures; making timely filing of tax returns, implementing and maintaining credit procedures; and maintaining insurance; (ii) negative covenants regarding the declaration of dividends or distributions on its share capital; creating or permitting to exist liens on property, revenues or other assets; making substantial changes to the business or operations and selling, transferring or otherwise disposing of its assets with a market value in excess of 10% of its total assets; and (iii) furnishing of information covenants regarding the provision of its financial statements and reports on certain matters, including compliance with prudential regulatory ratios. As of 30 June 2011, the principal amount outstanding under these loan facilities was US$84.5 million.

47.3 The Subordinated Loans

Pursuant to a subordinated loan agreement between the Bank and EBRD and a subordinated loan agreement between the Bank and IFC, each subordinated loan agreement being dated 30 December 2008, being on substantially the same terms and governed by English law (together, the **"Subordinated Loan Agreements"**), each of EBRD and IFC agreed to lend the Bank US$23.96 million. Interest under the Subordinated Loan Agreements is payable on a semi-annual basis. The EBRD Subordinated Loan is due to be repaid in one instalment on the first interest payment date occurring immediately after the tenth anniversary of the first disbursement date and the IFC Senior Loan is due to be repaid in one instalment on 15 January 2019. The Subordinated Loan

Agreements contain substantially the same covenants as the Senior Loan Agreements. The Subordinated Loans carry a distress conversion option, whereby IFC and/or EBRD can convert their respective Subordinated Loans into ordinary shares in the Bank if both: (a) its Convertible Subordinated Loan has been fully disbursed and fully converted into shares; and (b) the Bank's Tier I Capital Adequacy ratio falls to a level below 0.5% above the NBG's regulatory minimum for a 30 day period or, in circumstances where the failure to maintain the ratio above this level results from a depreciation event (being a depreciation in the Lari against the US Dollar by more than 20% over a 30 day period) and the ratio falls to a level below 0.5% above the NBG's regulatory minimum for a 90 day period. If the "distressed conversion option" has become exercisable as a result of the depreciation event, the conversion right shall be limited to such amount as is necessary for the Bank to restore its Tier I Capital Adequacy ratio to 11%. In other circumstances, the "distressed conversion option" maybe exercised to the full extent of the relevant subordinated loan. The conversion price per share is the Bank's net asset value per share as most recently reported to the NBG. As of 30 June 2011, the principal amount outstanding under these loan facilities was US$47.9 million.

47.4 The Convertible Subordinated Loans

Pursuant to a convertible subordinated loan agreement between the Bank and EBRD and a convertible subordinated loan agreement between the Bank and IFC, each convertible subordinated loan agreement being dated 30 December 2008, being on substantially the same terms and governed by English law (together, the **"Convertible Subordinated Loan Agreements"**), each of EBRD and IFC agreed to lend the Bank US$26.04 million. Interest under the Convertible Subordinated Loan Agreements is payable on a semi-annual basis. The EBRD Convertible Subordinated Loan is due to be repaid in one instalment on the first interest payment date occurring immediately after the tenth anniversary of the first disbursement date and the IFC Senior Loan is due to be repaid in one instalment on 15 January 2019. The Convertible Subordinated Loan Agreements contain substantially the same covenants as the Senior Loan Agreements. The Convertible Subordinated Loans may be converted into shares and/or GDRs at the option of IFC or EBRD, as the case may be, as well as the Bank in certain circumstances. IFC and/or EBRD may convert their respective Convertible Subordinated Loans at any time until the end of 2013 into shares representing a combined shareholding of IFC and EBRD of up to 10% on a fully diluted basis of the then current issued share capital (in aggregate approximately 3.47 million ordinary shares) at the conversion price per ordinary share equal to the Bank's consolidated net asset value per ordinary share as of 31 December 2008. The conversion rights are also subject to certain anti-dilution provisions that entitle each of IFC and EBRD to subscribe for up to 255,528 additional shares at the market price per share at the time of conversion in the event that its shareholding on conversion would otherwise fall below 5% (for each of IFC and EBRD) of the Bank's total issued share capital at the time of conversion. The Bank has agreed to maintain a sufficient number of authorised but unissued shares to permit the conversion by IFC and EBRD of their respective Convertible Subordinated Loans. The facilities were disbursed in full as of March 2009. As of 30 June 2011, the principal amount outstanding under these loan facilities was US$52.08 million. As described in Paragraph 5 of this Part XXI, each of EBRD and IFC has agreed, subject to certain conditions, to convert part of their Convertible Subordinated Loans in to Bank Shares. Assuming the completion of the Debt Conversion in full, each of the Convertible Subordinated Loans will be reduced by US$24.95 million to US$1.09 million on Admission.

47.5 EBRD 2010 Loan Facilities

On 6 August 2010, the Bank entered into three agreements governed by English law with EBRD relating to loan facilities in an aggregate amount of US$50 million. As of 30 June 2011, the aggregate amount outstanding under these loan facilities was US$23.5 million.

Under the terms of the first agreement (with operation number 40845), a loan of up to US$20 million can be drawn down by the Bank in two tranches of up to US$10 million. This is a medium term co-financing facility to co-finance large corporate loans. The first tranche can be drawn down by the Bank within 18 months of the signing of the agreement. The second tranche can be drawn down within 24 months of the Bank receiving written confirmation from EBRD that the second tranche is available for disbursement (such decision to be made at EBRD's sole discretion).

Under the terms of the second agreement (with operation number 41208), a loan of up to US$20 million can be drawn down by the Bank for SME financing. The first tranche of US$10 million can be drawn down by the Bank within 18 months of the signing of the agreement. The second tranche of US$10 million can be drawn down within 18 months of the Bank receiving written confirmation from EBRD that the second tranche is available for disbursement (such decision to be made at the EBRD's sole discretion.

Under the terms of the third agreement (with operation number 41107), a loan of up to US$10 million can be drawn down by the Bank in two tranches of up to US$5 million for financing energy efficiency projects. The first tranche can be drawn down by the Bank within 18 months of the signing of the agreement. The second tranche can be drawn down within 12 months of the Bank receiving written confirmation from EBRD that the second tranche is available for disbursement (such decision to be made at EBRD's sole discretion).

Interest is payable semi-annually. The Bank has agreed to repay the principal amount of each of the loans in seven equal (or as nearly as equal as possible) instalments, with the first instalment being on the first interest payment date 24 months after the first disbursement of the relevant loan. Each of the agreements require the Bank's continuing compliance with certain financial covenants including, but not limited to, maintaining certain ratios with respect to capital adequacy, liquidity, foreign currency position, credit exposures and net loans to deposit ratio. The agreements also contain certain affirmative covenants, negative covenants and furnishing of information covenants, including, among others, (i) affirmative covenants regarding the use of the loans proceeds; adopting and complying with environmental and social due diligence and monitoring procedures; making timely filing of tax returns, implementing and maintaining credit procedures; and maintaining insurance; (ii) negative covenants regarding the declaration of dividends; creating or permitting to exist liens on property, revenues or other assets; making substantial changes to the business or operations and selling, transferring or otherwise disposing of its assets with a market value in excess of 10% of its total assets; and (iii) furnishing of information covenants regarding the provision of its financial statements and reports on certain matters, including compliance with prudential regulatory ratios.

47.6 Loan Agreement with BG Finance B.V.

In February 2007, BG Finance B.V. (**"BG Finance"**) issued the 2012 Notes for the sole purpose of financing a loan to the Bank. In connection with the issuance of the 2012 Notes, the Bank and BG Finance entered into an English law governed loan agreement dated 6 February 2007 pursuant to which BG Finance agreed to lend the Bank US$200 million for a term of five years. The interest rate under the loan agreement is 9% per annum, such interest to be paid semi-annually in arrears, and the principal amount of the loan is due for repayment one business day prior to 8 February 2012.

The loan agreement requires the Bank's continuing compliance with certain financial covenants including, but not limited to, maintaining certain ratios with respect to capital adequacy, liquidity, foreign currency position, credit exposures and net loans to deposit ratio. The loan agreement also contains various furnishing of information covenants and restrictions, including, among others: (i) a covenant restricting certain transactions with affiliates; (ii) a covenant restricting the indebtedness of the Bank's subsidiaries; (iii) a covenant restricting the Bank's and its subsidiaries' ability to declare or pay a dividend; and (iv) a restriction, subject to certain exceptions, on the Bank (without the permission of BG Finance and the Trustee (BNY Corporate Trustee Services Limited)) entering into any reorganisation (whether by way of merger, accession, division, separation or transformation) or undergoing any other type of corporate reconstruction.

As of 30 November 2011, the principal aggregate amount of 2012 Notes outstanding is US$55.5 million.

47.7 Loan Agreement with the European Fund for Southeast Europe

On 11 November 2010, the Bank entered into an English law governed framework agreement for the granting of individual loans with the European Fund for South East Europe (the **"Fund"**). Under the terms of the framework agreement, the Bank can request the Fund to enter into individual loan agreements with the Bank.

The framework agreement requires the Bank's continuing compliance with certain financial covenants including, but not limited to, maintaining certain ratios with respect to capital adequacy, liquidity, foreign currency position, credit exposures and net loans to deposit ratio. The framework agreement also contains a change of control clause and various restrictions, including, among others a restriction, subject to certain exceptions, on the amalgamation, demerger, merger, consolidation, or corporate reconstruction of the Bank.

On 11 November 2010, the Bank entered into two individual loan agreements with the Fund pursuant to the framework agreement described above. The loan amount under the first agreement was US$20 million, to be disbursed in two tranches, with US$14 million to be disbursed on 15 December 2010 and a further US$6 million to be disbursed on 25 March 2011 for the purpose of financing mortgage loans. The loan amount under the second agreement was US$30 million, to be disbursed in two tranches, with US$20 million to be disbursed on 15 December 2010 and a further US$10 million to be disbursed on 25 March 2011 for the purpose of financing SME loans. The loans are repayable in nine consecutive semi-annual instalments, the last instalment being due on 15 June 2018. Each of the individual loan agreements contain restrictions on the use of the loan proceeds. As of 30 June 2011, the aggregate amount outstanding under these loan facilities was US$49.5 million.

47.8 Loan Agreement with the Asian Development Bank

On 1 December 2010, the Bank entered into an English law governed facility agreement with the Asian Development Bank (**"ADB"**) relating to a five-year loan facility in the amount of US$50.0 million for SME and housing financing. The interest rate under the loan agreement is to be paid semi-annually in arrears, and the principal amount of the loan is due for repayment in eight equal instalments, the last instalment to be paid 60 months after the signing of the agreement. The Senior Loan Agreements require the Bank's continuing compliance with certain financial covenants including, but not limited to, maintaining certain ratios with respect to capital adequacy, liquidity, foreign currency position, credit exposures and net loans to deposit ratio. The loan agreement also contains certain affirmative undertakings, negative undertakings and information undertakings, including, among others, (i) affirmative undertakings regarding the use of the loans proceeds; minimal environmental and social impacts; paying its taxes punctually when due; and maintaining insurance; (ii) negative undertakings regarding the declaration of dividends or distributions on its share capital; creating or permitting to subsist security over the Bank's or its subsidiaries' assets; making substantial changes to the business and making substantial changes to the corporate structure of the group; and (iii) information undertakings regarding the provision of its financial statements and reports on certain matters, including compliance with prudential regulatory ratios. As of 30 June 2011, the aggregate amount outstanding under this loan facility was US$24.6 million.

47.9 Loan Agreements with the Overseas Private Investment Corporation ("OPIC")

On 19 December 2008, the Bank entered into a New York law governed loan agreement with OPIC pursuant to which the Bank obtained a U.S.$29 million, 10-year senior mortgage facility (the **"OPIC Senior Facility"**). On the same date, the Bank entered into a second New York law governed loan agreement with OPIC pursuant to which the Bank obtained a U.S.$10 million, 10-year subordinated loan facility (the **"OPIC Subordinated Facility"**). Both loan facilities were disbursed in full in December 2008.

The OPIC Senior Facility is due for repayment in 36 equal instalments payable every quarter, starting 12 months after the date of the first disbursement and ending no later than 20 December 2018. The OPIC Subordinated Facility is due to be repaid in full on 20 December 2018. The OPIC Senior Facility and the OPIC Subordinated Facility each require the Bank's continuing compliance with certain affirmative and negative covenants including, but not limited to, affirmative covenants relating to maintaining insurance, furnishing financial statements and maintaining certain financial ratios and negative covenants including, but not limited to, the Bank creating a lien over its assets and the Bank making restricted payments.

The OPIC Subordinated Facility can be prepaid at any time, with the consent of the NBG. The OPIC Senior Facility can be prepaid at any time, in whole or in part, subject to a minimum prepayment of US$50,000. As of 30 June 2011, the aggregate amount outstanding under these loan facilities was US$33.8 million.

47.10 Loan Agreement with Merrill Lynch International ("ML")

On 3 August 2007, the Bank entered into an English law governed term facility agreement with ML pursuant to which ML agreed to make a U.S.$35 million, 10-year loan to the Bank. Interest is payable every six months. The loan is due to be repaid in full 10 years after drawdown but, with the written permission of the NBG, the Bank can voluntarily prepay the total amount of the loan after five years. The term facility agreement contains certain general undertakings and information undertakings, including, among others, (i) general undertakings regarding the conduct of business; the creation of security, the disposal of assets and entering into any reorganisation or corporate reconstruction; and (ii) information undertakings regarding the provision of its financial statements and notification of a default. As of 30 June 2011, the principal amount outstanding under this loan facility was US$35.0 million.

47.11 Loan Agreement with Nederlandse Financierings-Maatschappij voor ontwikkelingslanden N.V. ("FMO") and Deutsche Investitions- und Entwicklungsgesellschaft mbH ("DEG")

On 30 June 2008, the Bank entered into an English law governed term facility agreement with FMO and DEG pursuant to which FMO and DEG agreed to make a U.S.$30 million, 10-year subordinated loan to the Bank. The interest rate payable under the agreement is U.S. dollar 6 month LIBOR plus 7.25% per annum until 15 October 2013 and, if the Bank does not exercise its right to prepay in full on 15 October 2013, U.S. dollar 6 month LIBOR plus 9.25% per annum thereafter. The loan is due to be repaid in full on 15 October 2018 but, with the written permission of the FSA, the Bank can voluntarily prepay the loan on 15 October 2013. The term facility agreement contains certain positive undertakings, negative undertakings and information undertakings, including, among others, (i) positive undertakings regarding paying its taxes punctually when due; and maintaining insurance; (ii) negative undertakings regarding the declaration of dividends or other distributions; creating or permitting to subsist security over the Bank's or its material subsidiaries' assets; making substantial changes to the business; and entering into any amalgamation, demerger, merger or corporate reconstruction; and (iii) information undertakings regarding the provision of its financial statements and notification of a default. As of 30 June 2011, the principal amount outstanding under this loan facility was US$29.7 million.

47.12 Covenants

From time to time in the past, the Bank 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 the Bank's management (with the passage of time or otherwise) may qualify as non-performing loans under (i) and/or ii)) below 10% of its/their Tier 1 Capital. The Bank has obtained waivers related to all such breaches. As of 30 June 2011, the Bank was in compliance with all the financial covenants under the agreements described above. For further information regarding the Bank's loans from credit institutions, see Part XII "Funding — Amounts Due to Credit Institutions".

47.13 Interest Rates

The foregoing U.S. dollar loans bear fixed or floating interest rates tied either to LIBOR or EURIBOR. Interest rates for the Bank's U.S. dollar borrowings range from LIBOR plus 11.33% to LIBOR plus 4.65%. The Subordinated Loans, the Convertible Subordinated Loans, the loan agreement with the European Fund for Southeast Europe, the loan agreement with the ADB and the loan agreement with ML each contain certain interest rate step up provisions.

48. Other Material Agreements

Agreements relating to the sale of a 19.99% equity interest in BNB

Framework Share Purchase Agreement

On 24 June 2010, IFC and Benderlock Investments Limited (**"BIL"**), one of the Bank's subsidiaries, entered into a framework share purchase agreement (the **"Framework Share Purchase Agreement"**), whereby BIL sold 553,481,041 common shares of BNB (or a 19.99% equity interest) for a total consideration of BYR24,694 million (US$8.2 million) or BYR 44.6 (US$0.0148) per share. This agreement is governed by English Law.

48.1 Put Option Agreement

On 24 June 2010, the Bank and IFC entered into a put option agreement, whereby the Bank granted IFC a put option to sell its newly acquired 19.99% equity interest in BNB to the Bank at a price equal to the higher of: (i) the then current fair market value of the shares and (ii) the lower of (1) BYR 24,694 million (US$8.2 million) and (2) double the book value of the shares. The put option is exercisable from 15 January 2015 until 1 January 2017. This agreement is governed by English Law.

48.2 Shareholders' Agreement

On 24 June 2010, following the completion of the share purchase pursuant to the Framework Share Purchase Agreement, the Bank, BIL, IFC and Foreign Limited Liability Company Valimed (**"Valimed"**), a former wholly owned subsidiary of the Bank, entered into a shareholders' agreement (the **"Shareholders' Agreement"**) in order to define their mutual rights and obligations as shareholders of BNB and set out the terms and conditions governing their relationship. Key terms of the agreement are set out below:

- The Bank shall not (i) transfer any shares of BNB or share equivalents held directly or indirectly; or (ii) authorise or permit any transfer of any shares or share equivalent of BNB unless, following such transfer (as described in (i) and (ii)), the Bank shall maintain directly or indirectly an aggregate voting and economic interest in BNB equal to at least 51% of the shares of BNB issued and outstanding from time to time.
- If the Bank, Valimed Company or BIL propose to transfer any shares in BNB, IFC shall have the right to participate in such transfer.
- The Bank shall have a right of first offer if IFC proposes to transfer all or any portion of the shares to any person other than another shareholder of BNB.

This agreement is effective from 24 June 2011 and shall continue in force until such time as IFC no longer holds any shares of BNB or share equivalent, subject to certain additional conditions set out in the Shareholders Agreement. This agreement is governed by English law.

48.3 Registrar Agreement

Pursuant to a registrar agreement between BGH, the Bank, and the UK Registrar dated 15 December 2011, the UK Registrar has agreed to provide BGH with registry and associated services in relation to the Offer and on a continuing basis. In relation to the Offer, BGH and the Bank have agreed that one of them will pay the UK Registrar a one-off fee in relation to services provided in connection with the Offer and further fees for non-Offer related services and registry services. The UK Registrar may, on each anniversary of the agreement, by one month's written notice to BGH, vary its fees, save that any fee increase in excess of the consumer price index increase will only be applied with the agreement of BGH. The appointment is for a fixed term of three years, subject to early termination:

(i) by the UK Registrar on no less than six months' written notice, (ii) by BGH by written notice with immediate effect (subject to an obligation on BGH to pay the UK Registrar six months' fees from the date of the termination notice, except in the case of the UK Registrar's fraud, negligence, wilful default or breach of the agreement), (iii) by the UK Registrar or BGH in certain circumstances by written notice with immediate effect and without consequential payment obligations; and (iv) if BGH does not agree to a fee increase in excess of the consumer price index, BGH or the UK Registrar may terminate by giving six month's written notice. The registrar agreement is governed by English law.

48.4 Exchange Agent Agreement

Pursuant to a GDR exchange agent agreement between BGH, the Bank and the Exchange Agent dated the date of this Prospectus, the Exchange Agent has been appointed to act as exchange agent in connection with the Offer for those Bank Shares represented by GDRs. In return for the provision of exchange agent services by the Exchange Agent, the Bank, in an associated fee letter dated 15 December 2011, has agreed to pay the Exchange Agent a one-off fee and to reimburse the Exchange Agent for all reasonable and documented expenses incurred. The appointment will continue until the earlier of: (i) such time as all tendered Bank Shares represented by GDRs have been exchanged for BGH Shares; (ii) the GDRs have been returned to holders; or (iii) 31 March 2012. The agreement is subject to early termination either: (i) by written mutual agreement of the Exchange Agent, BGH and the Bank, or (ii) by the Exchange Agent, BGH or the Bank on three days' written notice in circumstances where there has been an irremediable breach by any other party or a breach which, if capable of remedy, remains unremedied within seven days' of notice of such breach being given to the defaulting party. The GDR exchange agent agreement is governed by New York State law.

48.5 Information Agent and Solicitation Agent Agreement

Pursuant to an engagement letter between the Bank and D.F King Europe, a division of D.F. King Worldwide (Europe) Limited, (**"DF King Worldwide"**) dated 15 December 2011, DF King Worldwide has been appointed to act as GDR Information Agent and GDR Solicitation Agent in connection with the Offer. In return for the provision of these services by DF King Worldwide, the Bank has agreed to pay DF King Worldwide customary fees related to an offer of this nature. The Bank has also agreed to reimburse DF King Worldwide for all of its reasonable and documented expenses relating to the provision of these services. The agreement contains certain representations, warranties and indemnities given by the Bank to DF King Worldwide. The appointment shall terminate on the completion, expiration or termination of the Offer. The engagement letter is governed by English law.

48.6 Georgian Exchange Agent Agreement

Pursuant to an agreement between BGH, the Bank and the BG Capital dated 15 December 2011, BG Capital has been appointed to act as Georgian Exchange Agent and Georgian Information Agent in connection with the Offer. In return for the provision of services in connection with the Offer, the Bank has agreed to pay to BG Capital a fee, one quarter of which is payable within 10 days of the date of the agreement and the remainder of which is payable on successful completion of the Offer. The Bank has also agreed to reimburse BG Capital for all reasonable and documented expenses incurred by it in connection with the Offer. Unless terminated earlier, the agreement will remain effective until all of BG Capital's obligations in connection with the Offer are fulfilled. The agreement may be terminated by: (i) the mutual written agreement of all of the parties; (ii) BGH and/or the Bank in circumstances where BG Capital is in breach of the agreement and such breach, if capable of remedy, is not remedied within five days of notice of such breach being given; or (iii) by operation of law. The agreement is governed by Georgian law.

48.7 Georgian Registrar Agreement

Pursuant to an agreement between the Bank and the Georgian Registrar dated 15 December 2011, the Georgian Registrar has agreed to provide certain services to the Bank and BGH, in connection with the Offer. The services to be provided by the Georgian Registrar include assistance in preparation of the Tender Offer Proposal, communicating the relevant Tender Offer Documents to the registered holders of Bank Shares, as well as other related ancillary services. In return for the provision of these services, the Bank has agreed to pay the Georgian Registrar a fee payable in three instalments, with the last payment comprising 50% of the total fees payable upon completion of the Tender Offer. The Bank will also reimburse the Georgian Registrar for all reasonable and documented expenses incurred. The agreement remains effective until completion of the Tender Offer, or until its cancellation. The Georgian Registrar Agreement is governed by Georgian law.

48.8 Sponsor Agreement

On the date of this Prospectus, BGH and the Bank entered into the Sponsor Agreement with ING Bank pursuant to which ING Bank was appointed to act as sponsor to BGH in connection with Admission and financial adviser and broker for the Offer. The Sponsor Agreement contains certain warranties and undertakings from BGH and the Bank in favour of ING Bank which are customary for an agreement of this nature, together with provisions which enable ING Bank, BGH or the Bank to terminate the Sponsor Agreement prior to Admission in certain specified circumstances, including circumstances where any warranties are found to be untrue or inaccurate.

The Sponsor Agreement also contains certain indemnities given by the Bank in favour of ING Bank in respect of, *inter alia,* claims made against ING Bank or losses suffered or incurred by it in connection with Admission.

49. Property, Plant and Equipment

A description of the Group's investments in property, plant and equipment is given in note 14 "Property, Plant and Equipment" starting on page F-59 of this Prospectus. For a description of the Group's material properties, see Part XIII "Description of Business — Property".

50. Working Capital

In the opinion of BGH, the working capital available to BGH and the Group is sufficient for BGH and the Group's present requirements (for at least the next 12 months following the date of this Prospectus).

51. Significant Change

Save for the payment of a dividend by the Bank comprising GEL 0.3 per share as approved by the Annual General Meeting of Shareholders on 15 June 2011; the US$11.9 million debt financing (of which US$1.0 million plus the US Dollar equivalent of EUR1.8 million has been drawn down by ABCI) obtained by ABCI from ING Bank on 24 October 2011; the issue of 1.5 million additional Bank Shares for the purposes of the SEECP on 28 October 2011 (which raised the Bank's issued share capital to 32,877,547 shares); the five-year GEL 24.1 million (US$14.5 million) debt facility (which has been fully drawn down by the Bank) obtained by the Bank from the EBRD on 17 November 2011 and the acquisition by ABCI of the assets and liabilities of Partner on 14 December 2011, there has been no significant change in the financial or trading position of Group since 30 June 2011, the date to which the last audited consolidated accounts of the Group were prepared. BGH was incorporated on 14 October 2011. Save for issuing 50,000 Redeemable Shares (which were fully paid up on 3 November 2011) there has been no significant change in the financial or trading position of BGH since 14 October 2011, being its date of incorporation.

52. Takeover Bids

52.1 Takeover Bids

No public takeover bid has been made in relation to either BGH or the Bank during the last financial year or the current financial year.

The City Code applies to BGH. Under the City Code, if an acquisition of interests in BGH Offer Shares were to increase the aggregate holding of an acquirer and persons acting in concert with it to an interest in BGH Offer Shares carrying 30% or more of the voting rights in BGH, the acquirer and, depending on the circumstances, person acting in concert with it, would be required (except with the consent of the Panel) to make a cash offer for any outstanding BGH Offer Shares. A similar obligation to make such a mandatory offer would also arise on the acquisition of an interest in BGH Offer Shares by a person holding (together with persons acting in concert with it) an interest in BGH Offer Shares carrying between 30 and 50% of the voting rights in BGH if the effect of such acquisition were to increase that person's percentage of the voting rights.

52.2 Squeeze-out

Under the Companies Act, if a "takeover offer" (as defined in section 974 of the Companies Act) is made for BGH Offer Shares and the offeror were to acquire, or unconditionally contract to acquire, not less than 90% in value of the BGH Offer Shares and not less than 90% of the voting rights attached to the BGH Offer Shares, within three months of the last day on which its offer can be accepted, it could acquire compulsorily the remaining 10%. Such an acquisition would be made by sending a notice to the outstanding holders of BGH Offer Shares that stated that it would acquire compulsorily the BGH Offer Shares held by them and then, six weeks later, by executing a transfer of outstanding BGH Offer Shares in its favour and paying the consideration to BGH which would hold the consideration on trust for the outstanding holders of BGH Offer Shares. The consideration offered to the holders of BGH Offer Shares whose BGH Offer Shares are so compulsorily acquired must, in general, be the same consideration as was available under the takeover offer.

52.3 Sell-out

The Companies Act also provides minority holders of BGH Offer Shares the right to be bought out in certain circumstances by an offeror that has made a takeover offer. If the takeover offer related to all of the BGH Offer Shares and at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90% of the BGH Offer Shares to which the offer relates, any holder of BGH Offer Shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those BGH Offer Shares. The offeror is required to give a holder of BGH Offer Shares notice of its right to be bought out within one month of the right arising. The offeror may impose a time limit on the rights of the minority holders of BGH Offer Shares to be bought out, but that period cannot end less than three months after the end of the acceptance period of the relevant takeover offer. If a holder of BGH Offer Shares exercises its rights, the offeror is bound to acquire those BGH Offer Shares on the terms of the offer or on such other terms as may be agreed.

53. General

The accounting reference date of BGH is 31 December.

The estimated fees and expenses relating to the Admission, the Offer and the preparation of this Prospectus, including the FSA's fees, professional fees and expenses and the costs of printing and distribution of documents are estimated to amount to approximately US$3 million (excluding taxes) and are payable by the Bank. No proceeds will accrue to BGH from the Offer.

On Admission, BGH Offer Shares will be listed on the premium listing segment of the Official List and admitted to trading on the Main Market under ISIN GB00B759CR16. Other than the current application for admission of the BGH Offer Shares to trading on the Main Market, the BGH Offer Shares have not been admitted to trading on any recognised investment exchange nor has any application for such admission been made, nor are there intended to be, any other arrangements for there to be dealings in the BGH Offer Shares.

The BGH Offer Shares will be in registered form and, from Admission, will be capable of being held in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the Regulations). Where BGH Offer Shares are held in certificated form, share certificates will be sent to the registered members by first class post. Where BGH Offer Shares are held in CREST, the relevant CREST stock account of the registered members will be credited.

As at the date of this Prospectus, in so far as is known to the BGH Directors, 48.20% of the share capital in the Bank is in public hands. Immediately following Admission, assuming full acceptance of the Offer and the completion of the Debt Conversion in full, it is currently anticipated that 53.35% of the fully diluted share capital of BGH will be in public hands.

The BGH Directors are not aware of any environmental issues that may affect the BGH's utilisation of its tangible fixed assets.

Save as set out in this Prospectus, the Group has not agreed to make any new principal investments as of the date of this Prospectus.

BGH is not dependent on patents or licences or industrial, commercial or financial contracts or new manufacturing processes which are material to its business or profitability.

54. Consents

Ernst & Young LLC have consented to the inclusion in the Prospectus of their report on page F-2 in the form and context in which it is included and authorised the contents of their report for the purposes of Prospectus Rule 5.5.3R(2)(f). This statement is included to comply with item 23.1 of Annex I of Appendix III of the Commission Regulation (EC) 809/2004.

For the purposes of Prospectus Rule 5.5.3R(2)(f) Ernst & Young LLC are responsible for their report beginning on page F-2 as part of the Prospectus and declare that they have taken all reasonable care to ensure that the information contained in their report is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

For the purposes of Prospectus Rule 5.5.3R(2)(f) the Bank Supervisory Board and the Bank Management Board are responsible for Paragraph 1 "Introduction" and Paragraph 7 "Recommendation" of Part IV "Information on the Offer" as part of the Prospectus and declare that they have taken all reasonable care to ensure that the information contained in those Paragraphs is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

A written consent under the Prospectus Rules is different from a consent filed with the US Securities and Exchange commission under Section 7 of the Securities Act. As the BGH Offer Shares have not and will not be registered under the Securities Act, Ernst & Young LLC has not filed a consent under Section 7 of the Securities Act.

55. Documents Available For Inspection

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months from the date of publication of this Prospectus at the offices of BGH at 84 Brook Street, London, W1K 5EH, United Kingdom and at the offices of the Bank at 29a Gagarin Street, Tbilisi, Georgia 0160:

- Articles of Association of BGH;
- the Charter;
- the historical financial information of the Group for the six months ending 30 June 2011, including the report of Ernst & Young LLC thereon, set out from page F-2 of this Prospectus;
- the historical financial information of the Group for the three years ending 31 December 2010, including the report of Ernst & Young LLC thereon, incorporated by reference in this Prospectus;
- service agreements and letters of appointment (as applicable) with the BGH Directors;
- written consent from Ernst & Young LLC;
- Resolutions of the Bank Supervisory Board and the Bank Management Board in respect of sections 1 ("Introduction") and 7 ("Recommendation") of Part IV ("Information of the Offer") of this Prospectus; and
- this Prospectus.

Dated: 20 December 2011

PART XXII

DEFINITIONS

1995 NBG Law	Old law of Georgia on the National Bank of Georgia adopted on 23 June 1995
2008 Conflict	the armed conflict between Georgia and Russia that broke out in August 2008
2012 Notes	US$200 million, 9% loan participation notes due 2012 issued in February 2007 by BG Finance B.V. for the sole purpose of financing a loan to the Bank
ABCI	Joint Stock Company Insurance Company Aldagi BCI
Acceptance Condition	the acceptance condition set out in Paragraph 1.1(a) of Part XVIII "Conditions to and Further Terms of the Offer" of the Prospectus
acceptances of the Offer	an acceptance of the Offer by an Existing Holder in accordance with Part XVIII "Conditions to and Further Terms of the Offer" and includes deemed acceptances of the Offer
ADB	the Asian Development Bank
Admission	admission of the BGH Offer Shares to the premium listing segment of the Official List and to trading on the main market for listed securities of the London Stock Exchange
Admission and Disclosure Standards	the current edition of the Admission and Disclosure Standards of the London Stock Exchange
Admission Condition	the admission condition set out in Paragraph 1.1(c) of Part XVIII "Conditions to and Further Terms of the Offer" of the Prospectus
Admission Date	the date on which Admission occurs
Affiliates	of any specified Person means (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (b) any other Person who is a director or officer of such specified Person, of any Subsidiary of such specified Person or of any other Person described in (a)
ALCO	Asset and Liability Management Committee
AML	anti-money laundering
Anti-Money Laundering Law or AML Law	the Law of Georgia on Facilitating Elimination of the Legalisation of Illegal Income adopted on 6 June 2003
Applicable Laws	the mandatory requirements of the laws and regulations of Georgia and/or any other relevant jurisdiction(s)
Articles	the articles of association of BGH adopted subject to the Offer being declared wholly unconditional at the general meeting held on 12 December 2011
ATOP	the Automated Tender Offer Program operated by DTC
ATOP Instruction	an instruction to accept the Offer in whole or in part in respect of Rule 144A GDRs held through DTC through DTC's ATOP on the terms set out in this Prospectus
Audited Financial Statements	the Six Month Audited Financial Statements included in this Prospectus and the Three Year Audited Financial Statements incorporated into this Prospectus by reference

Authorisation	any regulatory authorisations, orders, recognitions, grants, consents, clearances, confirmations, certificates, licences, permissions or approvals
AZN	the lawful currency of the Republic of Azerbaijan
Bank Audit Committee	the audit committee of the Bank
Bank Directors	the members of the Bank Supervisory Board and the Bank Management Board
Bank Management Board	the management board of the Bank
Bank or **Bank of Georgia**	Joint Stock Company Bank of Georgia
Bank Register	the share register of the Bank held by the Georgian Registrar
Bank Remuneration Committee	the remuneration committee of the Bank
Bank Share Capital	the existing issued share capital of the Bank as at the date of this Prospectus
Bank Shareholder	a holder of Bank Shares
Bank Shares	each of the issued ordinary shares of the Bank (with a nominal value of GEL 1.00 each)
Bank Supervisory Board	the supervisory board of the Bank
Banking Law	Law of Georgia on the Activities of Commercial Banks, adopted on 23 February 1996
Basel Committee	Basel Committee on Banking Supervision is an institution created by the central bank governors of the group of ten nations (**"G10"**), which has developed a set of recommended market practices of financial risk management in the banking sector, security and minimal capital requirements for banks. The Basel Committee's most important documents are the Capital Accord of 1988 and its expanded and updated version known as Basel II, The New Capital Accord
Basel I	The Basel Committee's Capital Accord of 1988
Basel II	New Capital Accord published by the Basel Committee
Basel III	A sequence of major reforms to Basel II
BCI	Joint Stock Company Insurance Company BCI
Belarus roubles BYR	the lawful currency of the Republic of Belarus
BG Bank	Joint Stock Company BG Bank
BG Capital	Joint Stock Company BG Capital
BGH	Bank of Georgia Holdings Plc
BGH Audit Committee	the audit committee established by the Board, further details of which are set out in Part XVII "Directors, Senior Management, Corporate Governance and Employees — BGH Directors" of this prospectus
BGH Board	the board of directors of BGH
BGH Directors	the directors of BGH
BGH Executive Committee	the executive committee established by the Board, further details of which are set out in Part XVII "Directors, Senior Management, Corporate Governance and Employees — BGH Directors" of this Prospectus
BGH Fully Diluted Share Capital	the issued share capital of BGH immediately following Admission, assuming full acceptance of the Offer and full Debt Conversion

BGH Nomination Committee	the nomination committee established by the Board, details of which are set out in Part XVII "Directors, Senior Management, Corporate Governance and Employees — BGH Directors" of this Prospectus
BGH Offer Shares	the Ordinary Shares to be issued in connection with the Offer
BGH Remuneration Committee	the remuneration committee established by the Board, details of which are set out in Part XVII "Directors, Senior Management, Corporate Governance and Employees — BGH Directors" of this Prospectus
BGH Shareholder	a holder of BGH Shares
BGH Shares	the entire issued share capital of BGH from time to time
BNB	Joint Stock Company Belarusky Narodny Bank
BNYM	The Bank of New York Mellon
Brokerage Account	brokerage and nominal holdings account with the Georgian Exchange Agent
Business Day	any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including in foreign exchange and foreign currency deposits) in New York City, London and Tbilisi
CAGR	compound annual growth rate
Certification Form	the form of certification to be completed by each Existing Holder in connection with accepting the Offer
CFC	controlled foreign company
Charter	the charter of the Bank
CIG	Joint Stock Company Credit Information Georgia
CIS	Commonwealth of Independent States
City Code	the UK City Code on Takeovers and Mergers
Class A Shares	in the event that a merger reserve is created in connection with the Offer, the redeemable class A shares of £0.01 each in the capital of BGH to be allotted to those holders of Bank Shares who have validly accepted the Offer and are registered or are entitled to be registered as holders of BGH Offer Shares *pro rata* to such holders (or, if BGH determines, to such person as BGH may procure as nominee for such holders) upon capitalisation of the merger reserve and which are to be cancelled as part of the Reduction of Capital
Clearing System	Clearstream, Euroclear or DTC, as the case may be
Clearstream	Clearstream Banking, société anonyme
Companies Act	the UK Companies Act 2006, as amended
Company Secretary	KB Rea Ltd
Conditions	the conditions of the Offer set out in Part XVIII "Conditions to and Further Terms of the Offer" of the Prospectus
Convertible Debt	the respective convertible subordinated loans of EBRD and IFC
Corporate Governance Code	the UK Corporate Governance Code published in June 2010 by the Financial Reporting Council
Council	the Council of the European Union
Court Hearing	the hearing by the UK Court of the claim form to confirm the Reduction of Capital at which the Court Order will be sought

Court Order	the order of the UK Court confirming the Reduction of Capital under section 648 of the Companies Act
CPEBS	"Core Principles for Effective Banking Supervision" published by the Basel Committee on Banking Supervision
CPI	Consumer Price Index
CRA Regulation	Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies
Credit Committees	the credit committees of the Bank
Credit Policies	the Bank's credit policies and procedures and other internal documents setting out the Bank's established procedures for approving loans, monitoring loan quality and for extending, refinancing and/or restructuring existing loans
CREST	the book-entry settlement system for equity securities in the United Kingdom and Ireland operated by Euroclear UK, or any successor entity thereto
Custodian	BNY (Nominees) Limited, acting as custodian to the Depositary in respect of Bank Shares underlying the GDRs
Debt Conversion	the conditional conversion by each of EBRD and IFC of a principal amount of their respective Convertible Subordinated Loans into a total of 1,817,503 Bank Shares each, and acceptance by each of EBRD and IFC of the Offer
declared wholly unconditional	in relation to the Offer, all of the Conditions having been satisfied or waived (where capable of waiver) and the Offer being declared wholly unconditional
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
Delivery Instruction Notice	the instruction given to the Exchange Agent by a Rule 144A GDR Holder which accepts the Offer, specifying whether the Rule 144A GDR Holder wishes to receive the BGH Offer Shares in uncertificated form in CREST or in certificated form
Deposit Agreement	the deposit agreement, dated 24 November 2006, between the Bank and the Depositary as supplemented by agreements dated 21 December 2007, 12 February 2008 and 18 March 2009
Depositary	BNYM, acting as the depositary for the Bank Shares underlying the GDRs under the Deposit Agreement
Deputy CEOs	Deputy Chief Executive Officers
DF King Worldwide	D.F. King Europe, a division of DF King Worldwide (Europe) Limited
Disclosure and Transparency Rules	means the disclosure and transparency rules produced by the FSA and forming part of the FSA's Handbook of rules and guidance, as from time to time amended
Discretionary Securities	additional Bank Shares and/or GDRs of the Bank which may be awarded to a Senior Executive at the sole discretion of the Bank Supervisory Board during the Term of the SEECP
DTC	The Depository Trust Company
EBRD	European Bank for Reconstruction and Development
EECP	the Executive Equity Compensation Plan
EGM	extraordinary GMS
EIB	European Investment Bank

Electronic Instruction	an instruction to accept the Offer in whole or in part in respect of GDRs held through Clearstream and Euroclear (as the case may be) in the form specified by the relevant Clearing System on the terms set out in this Prospectus
EU	European Union
EURIBOR	Euro inter-bank offered rate
Euroclear	Euroclear Bank S.A./N.V.
Euroclear UK	Euroclear UK & Ireland Limited (formerly known as CRESTCo Limited)
Euros, Euro or €	the lawful currency of the European Economic and Monetary Union
Exchange Act	the United States Securities Exchange Act of 1934, as amended
Exchange Agent	BNYM, acting as the exchange agent for the GDRs in the Offer
Executive Officers	the Bank's executive officers
Existing Holder	a holder of Existing Securities
Existing Securities	GDRs and Bank Shares
Expiration Time	5.00 p.m. (London time) / 9.00 p.m. (Tbilisi time) /12.00 noon (New York time) on the date on which the Offer Period expires
extension of the Offer	in relation to the Offer shall include a reference to an extension of the date by which the Conditions have to be fulfilled
FDI	foreign direct investment
Financing Agreements	the Bank's financing agreements with commercial banks and financial institutions
Fitch	Fitch Ratings, Ltd
FMO	Nederlandse Financierings-Maatschappij voor ontwikkelingslanden N.V.
FMS	Financial Monitoring Service
Form of Acceptance	the form of acceptance for use in connection with the Offer accompanying the Prospectus and Tender Offer Proposal to be completed by Bank Shareholders
FSA	the UK Financial Services Authority
FSMA	the UK Financial Services and Markets Act 2000
GBP, Pounds Sterling or £	the lawful currency of the United Kingdom
GDP	gross domestic product
GDR	each of the global depositary receipts representing Bank Shares
GDR Expiration Time	5:00p.m. (New York time) / 10.00p.m. (London time), on the day that is four Business Days prior to the Expiration Time
GDR Holder	holder of GDRs
GDR Listing	the admission of the GDRs to the Official List of the UK Listing Authority and to trading on the London Stock Exchange
Georgian Card	Joint Stock Company Georgian Card
Georgian Court	Tbilisi City Court or Kutaisi City Court

Georgian Exchange Agent	BG Capital, acting as the exchange agent for the Bank Shares in the Offer
Georgian FSA	Georgian Financial Supervisory Authority
Georgian Information Agent	BG Capital, acting as the information agent for the Bank Shares in the Offer
Georgian Listing	the listing of the Bank Shares on the GSE
Georgian Registrar	Joint Stock Company Kavkasreestri
Geostat	Legal Entity of Public Law National Statistics Office of Georgia
GLC	Joint Stock Company Georgian Leasing Company
GMS	the general meeting of Bank Shareholders
Group	prior to Admission, the Bank and its subsidiaries; and following Admission, Bank of Georgia Holdings Plc and its subsidiaries, including the Bank and its subsidiaries
GSE	the Georgian Stock Exchange
HMRC	HM Revenue and Customs
Hryvnia, UAH	the lawful currency of Ukraine
IAS	the International Accounting Standards
IASB	the International Accounting Standards Board
IFC	the International Finance Corporation
IFIs	the financial institutions established (or chartered) by more than one country which are subject to international law and whose owners or shareholders are generally national governments, including, among others EBRD and IFC
IFRS	the International Financial Reporting Standards
IMF	the International Monetary Fund
Information Agent	DF King Worldwide, acting as the information agent for the GDRs in the Offer
INS	the lawful currency of Israel
Institutional Accredited Investor	an institutional accredited investor within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act
Instruction	an instruction to the Georgian Exchange Agent by Bank Shareholders accepting the Offer to transfer their Bank Shares to BGH and accept the BGH Offer Shares as consideration for such transfer
Irrevocable Undertakings	irrevocable undertakings to accept the Offer, details of which are set out in Paragraph 2.2 "Irrevocable Undertakings and Letters of Consent" of Part IV "Information on the Offer"
ISA	the International Standards on Auditing
ISDA	International Swaps and Derivatives Association
KYC	know your customer
Lari, GEL	the lawful currency of Georgia
Law of Entrepreneurs	Law of Georgia on Entrepreneurs adopted on 28 October 1994
Liberty Consumer	Joint Stock Company Liberty Consumer
LIBOR	London inter-bank offered rate

Listing	the application for admission of all BGH Offer Shares to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange
Listing Rules	the rules and regulations made by the FSA in its capacity as the UK Listing Authority under FSMA, and contained in the UK Listing Authority's publication of the same name
London Stock Exchange	London Stock Exchange plc
Long Stop Date	5.00 pm (London time) / 9.00 pm (Tbilisi time) / 12.00 noon (New York time) on 31 March 2012
Main Market	the London Stock Exchange's main market
Management	the Bank's management team
Model Code	The Model Code, as published in the Listing Rules
Moody's	Moody's Investors Service, Inc.
My Family Clinic	Joint Stock Company My Family Clinic
NATO	North Atlantic Treaty Organisation
NBG	National Bank of Georgia
NBG Law	new Organic Law of Georgia on the National Bank of Georgia which came into effect on 12 October 2009
NBRB	National Bank of the Republic of Belarus
NBU	National Bank of Ukraine
New York Convention	United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards
Non-US Holder	an Existing Holder other than a US Holder
OECD	Organisation for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control of the US Department of the Treasury
Offer	the offer (including any revision, variation, renewal or extension thereof) to be made by BGH to the Existing Holders to acquire all the issued and to be issued Bank Shares (including the Bank Shares that are represented by GDRs) in consideration for the allotment of Ordinary Shares on the basis of one Bank Share (whether held directly or through a GDR) for one Ordinary Share
Offer Period	the period commencing on 21 December 2011 and expiring on 24 February 2012 subject to any extension of this period in accordance with the terms of the Offer set out in Part XVIII "Conditions to and Further Terms of the Offer"
Official List	the UK Listing Authority's official list of securities
OPIC	Overseas Private Investment Corporation
Ordinary Shares	(a) prior to the Reduction of Capital, the ordinary shares with a nominal value of £6.00 each (or such lower nominal value as the BGH Directors shall resolve upon prior to allotment) in the capital of BGH to be allotted and issued in connection with the Offer; and (b) following the Reduction of Capital, the ordinary shares with a nominal value of £0.01 each in the capital of BGH
Other Senior Managers	the senior managers of the Group (excluding the BGH Directors and the Bank Directors)

Overseas Existing Holders	Existing Holders that are resident or located in, or citizens or nationals of, jurisdictions outside the United Kingdom and Georgia
Panel	the UK Panel on Takeovers and Mergers
Parliament	the Parliament of Georgia
Participating Holder	an Existing Holder that validly accepts the Offer and certifies as to certain requirements set forth in the Certification Form
Participating US Holder	a US Holder that validly accepts the Offer and certifies that it is a QIB or an institutional accredited investor and otherwise satisfies certain requirements set forth in the Certification Form
Partner	JSC Insurance Company Partner
POS	point-of-sale
Previous Acceptor	in circumstances where the Offer is revised, any Existing Holder who has accepted, or submitted an instruction to accept, the Offer and who has not validly withdrawn such acceptance or instruction to accept
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of November 4, 2003, requiring a prospectus to be published when securities are offered to the public or admitted to trading, and amending Directive 2001/34/EC
Prospectus or this Prospectus	this document constituting a prospectus within the meaning of the Prospectus Directive prepared for the purposes of the Offer and the Admission
Prospectus Rules	the Prospectus Rules of the FSA published under Section 73A(4) of the FSMA
QIB	qualified institutional buyer as defined in Rule 144A
Ratings Agencies	Moody's Investors Service and its successors, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies and its successors, or Fitch Ratings and its successors
Redeemable Shares	the 50,000 redeemable non-voting preference shares of £1.00 each in the share capital of BGH
Reduction of Capital	the proposed reduction of the nominal value of the BGH Offer Shares in issue at the Reduction of Capital Record Time and either: (i) the cancellation of the amount of the share premium account (if any) in existence at the Reduction of Capital Record Time; or (ii) the cancellation of the Class A Shares (if any) in issue at the Reduction of Capital Record Time, in each case in order to create distributable reserves in BGH
Reduction of Capital Record Time	6.00pm on the Business Day immediately preceding the date of the Court Hearing of the claim form to confirm the Reduction of Capital
Regulation S	Regulation S under the Securities Act
Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
Regulatory Information Service	a service set out in Appendix 3 to the Listing Rules
Relevant transaction	for UK tax purposes, includes (amongst other things) the making, increase in the amount or change in the terms of a loan or advance of more than a negligible amount to any person subject to UK tax (which would include BGH)
Responsible Person	BGH
Restricted Jurisdiction	Australia, Canada, Japan, Russia, Ukraine or any jurisdiction where to make the Offer directly or indirectly, in, into or from, or by use of the

	mails of, or by any means of instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission or telephone) of interstate or foreign commerce of, or by means of any facility of a national, state or other securities exchange of, would violate the laws of that jurisdiction
Restructured Loans	loans that would otherwise be overdue or impaired whose terms (including as to principal and interest payment) have been renegotiated due to the borrower's existing or possible inability to pay
ROA	return on assets
ROAE	return on average equity, an adjusted version of the ROE measure of company profitability, in which the denomination is average shareholders' equity rather than shareholders' equity
ROE	return on equity
Rule 144A	Rule 144A under the Securities Act
SBRE	SB Real Estate
SDRT	UK stamp duty reserve tax
SEC	United States Securities and Exchange Commission
Securities	Existing Securities and BGH Shares
Securities Act	the United States Securities Act of 1933, as amended
SEECP	the Senior Executive Equity Compensation Plan
Shareholder Acceptance	an acceptance of the Offer given by a Bank Shareholder (whether through return of a Form of Acceptance or orally to the Georgian Exchange Agent)
Six Month Audited Financial Statements	the Group's audited consolidated financial statements as of and for the six months ended 30 June 2011
SME	small and medium enterprise
Sponsor	ING in its capacity as Sponsor
Squeeze-Out	the right of a shareholder who holds more than 95% of a company's voting shares to buy out the other shareholders at a "fair price" pursuant to the Law on Entrepreneurs
Standard & Poor's	Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc.
Subscriber Share	the one ordinary share of £1.00 in the capital of BGH which will be acquired for nil consideration by BGH and cancelled
Teliani Valley	Joint Stock Company Teliani Valley
Tender Offer Documents	this Prospectus, the Tender Offer Proposal, the Form of Acceptance and the Certification Form
Tender Offer Proposal	the Georgian law document distributed to Bank Shareholders describing the Offer, dated one Business Day after the date of this Prospectus and made available from around the date of this Prospectus on the following websites: www.bogh.co.uk and www.bankofgeorgia.ge
Third Party	a central bank, government or governmental, quasi-governmental, supranational, statutory, regulatory, environmental, administrative, fiscal or investigative body, court, trade agency, association, institution, environmental body, employee representative body or any other body or person whatsoever in any jurisdiction

Three Year Audited Financial Statements	the Group's audited consolidated financial statements as of and for the years ended 31 December 2010, 2009 and 2008
Trust	Rubicon Executive Equity Compensation Trust
Trustee	Trustee of the EECP and the SEECP
TUB	Joint Stock Company TbilUniversalBank
UK Court	the High Court of Justice of England and Wales
UK Listing Authority	the FSA acting as the competent authority under Part VI of FSMA
UK Registrar	Computershare Investor Services PLC
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland
United States or US	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
US Dollars, Dollars or US$	the US Dollar, the lawful currency of the United States of America
US Holder	(a) an Existing Holder that is either (A) in the United States or (B) acting as agent, nominee, custodian, trustee or otherwise for or on behalf of a person in the United States; (b) an Existing Holder who completes the Form of Acceptance and/or Certification Form with an address in the United States or has a registered address in the United States; (c) an Existing Holder who inserts in its Form of Acceptance and/or Certification Form the name and address of a person or agent in the United States to whom it wishes the consideration to which it is entitled under the Offer and/or any documents to be sent; (d) an Existing Holder whose acceptance is received in an envelope postmarked in, or which otherwise appears to BGH or its agents to have been sent from, the United States; or (e) any other Existing Holder that appears to BGH or its agents to be in the United States
VAR	value at risk
WACC	weighted average cost of capital
WBC	World Business Capita Inc
WIPO	World Intellectual Property Organisation

PART XXIII

REGULATION OF THE GEORGIAN BANKING SECTOR

The main laws regulating the Georgian banking sector are the NBG Law and the Banking Law. In addition, the NBG has the power to issue decrees/resolutions on various issues within its competence, including, but not limited to, monetary regulation instruments, banking supervision regulations and payment system regulations. The principal legislative act regulating the activities of banks is the Banking Law, which (among other things) sets out the list of permitted and prohibited activities for banks and establishes the framework for the licensing of banks and the regulation of banking activity by the NBG.

Licensing

A licence must be obtained from the NBG for, and banks are permitted to engage only in, "banking activities" as defined in the Banking Law, which include: (i) receiving interest-earning and interest-free deposits and other returnable means of payment; (ii) extending consumer loans, mortgage loans and other credits (whether secured or unsecured), and engaging in factoring operations with and without the right of recourse, trade finance including the granting of guaranties, letters of credit, acceptance finance, and forfeiting; (iii) buying, selling, paying and receiving monetary instruments (such as notes, cheques and certificates of deposit), securities, futures and options with debt instruments or interest rates, currency and interest instruments, debt instruments, foreign exchange, precious metals and precious stones; (iv) cash and non-cash settlement operations and the provision of cash collection services; (v) issuing payment instruments and managing their circulation (including payment cards, cheques and bills of exchange); (vi) interest-free banking services; (vii) intermediary services on the financial markets; (viii) trust operations on behalf of clients and funds management; (ix) safekeeping and accounting for valuables including securities; (x) credit-information services; (xi) activities of the central depositary as determined by the Law of Georgia on Securities Market; (xii) leasing property; and (xiii) activities incidental to each of the above types of services.

The Banking Law provides that any banking activities related to securities shall be regulated by the Law of Georgia on Securities Market and that, prior to tendering interest-free banking services or issuing certificates of deposit, a commercial bank must present to the NBG a description of the relevant service for the NBG's approval.

Mandatory Financial Ratios

The NBG is authorised to set mandatory capital adequacy ratios, lending limits and other economic ratios. The ratios listed in the table below are set out in the Regulation on Supervision and Regulation of the Activities of Commercial Banks (Georgian FSA President Order No. 8 of 26 September 2008).

Mandatory Financial Ratio	NBG Minimum/Maximum	Description
Capital adequacy ratios		
Tier I capital adequacy ratio	Tier I Capital to Risk Weighted Assets must not be less than 8.0%	This is intended to limit the risk of a bank's insolvency and sets requirements for the minimum size of the bank's capital base. It is formulated as a ratio of a bank's capital base to its risk-weighted assets.
Total capital (Tier I and Tier II) adequacy ratio	Regulatory Capital to Risk Weighted Assets must not be less than 12.0%	This ratio is formulated as a ratio of a sum of a bank's Tier I and Tier II capital (less certain deductions) to its risk-weighted assets. The risk-weighted assets are calculated under a formula that takes into account, among other things, the bank's capital, selected categories of assets, their respective reserves and risks relating to off-balance sheet commitments and contingencies.

Mandatory Financial Ratio	NBG Minimum/Maximum	Description
Related party lending ratios		
Related party lending single insider ratio	No credit to an insider (or his or her other liabilities to a bank) to exceed 5.0% of Regulatory Capital.	These ratios are intended to limit a bank's credit exposure to an insider (i.e. a person or entity controlling the bank, a high-rank official of the bank, an affiliated company or anyone related the any of the above). They are formulated as the maximum ratio of the aggregate amount of the bank's credit claims against its insiders to its capital base.
Related party lending all insiders ratio	The aggregate of all credits to insiders and their other liabilities to a bank not to exceed 25.0% of Regulatory Capital.	
Lending ratios		
Lending ratio individual borrower	No credit to an outsider (or his or her other liabilities to a bank) to exceed 15.0% of Regulatory Capital.	These ratios are intended to limit the credit exposure of a bank to one borrower or a group of related borrowers. They are formulated as the maximum ratio of the aggregate amount of the bank's various credit claims to a borrower (or a group of related borrowers) to its capital base.
Lending ratio group of related borrowers	The aggregate of all credits to a group of related outsiders and their other liabilities to the bank not to exceed 25.0% of Regulatory Capital.	
Large loans to customers	Total large loans to customers and other liabilities not to exceed 200.0% of the Regulatory Capital. The NBG defined "Large Loans and Other Liabilities" as loans to a single borrower or a group of related borrowers and other liabilities in excess of 5.0% of Regulatory Capital.	This ratio intends to limit the concentration of large borrowings in a bank's loan portfolio and a bank's exposure to single or related large borrowers.
Unsecured loans		
Uncollateralised loans	Not to exceed 25.0% of the total loan portfolio of a bank.	This ratio is intended to limit the bank's credit exposure to unsecured loans.
Liquidity ratios		
Average liquid assets: liabilities	Average liquid assets during the month shall not be less than 30.0% of average liabilities over the course of the month(1) .	This ratio is intended to limit a bank's liquidity risk by ensuring that a bank maintains sufficient reserves of highly liquid assets.

(1) Until 2008, the mandatory average liquid assets: liabilities ratio was required to be no less than 30.0% Under the Georgian FSA Order of 26 September 2008, the minimum ratio was reduced to 20.0% From 1 October 2010, the minimum ratio increased back up to 30.0% following the NBG notifying commercial banks of the increase in writing. Notably, no relevant amendments were made to the Georgian FSA Order of 26 September 2008.

Mandatory Financial Ratio	NBG Minimum/Maximum	Description
Investments ratios		
Investments: equity	Total investments in the capital of legal persons not to exceed 50.0% of the difference between total assets and liabilities of the bank.	These ratios are intended to limit the aggregate risk of a bank's investments in legal persons by limiting such investments to a proportion of the share capital.
Investments plus fixed assets: equity	Remaining value of a bank's fixed assets together with the total investments in the capital of legal persons not to exceed 70.0% of the difference between total assets and liabilities of the bank.	
Open exchange position		
Balance sheet open exchange position	Not to exceed 20.0% of Regulatory Capital. This ratio applies to on-balance sheet open exchange position.	The on balance sheet open exchange position is the value of foreign exchange account balances, meaning non-GEL assets and liabilities.
Cumulative open exchange position	Not to exceed 20.0% of Regulatory Capital. This ratio applies to both on-balance sheet open exchange position and off-balance sheet open exchange position.	The cumulative open exchange position is the value of foreign exchange account balances, meaning on-balance sheet non-GEL assets and liabilities and off balance sheet non-GEL commitments.

The following table sets forth information regarding Bank of Georgia's compliance on a stand-alone basis with the foregoing mandatory financial ratio requirements as of 31 December 2010, 2009 and 2008.

Mandatory Financial Ratio		Financial Ratio Requirement	As of June 30 2011	As of 31 December 2010 (unaudited)	2009	2008
Tier I capital adequacy ratio	≥	8%	11.51%	13.00%	19.71%	16.57%
Total capital adequacy ratio	≥	12%	15.14%	14.47%	16.83%	13.49%
Related party lending single insider ratio	≤	5%	1.58%	2.03%	2.85%	2.08%
Related party lending all insiders ratio	≤	25%	5.60%	5.35%	11.94%	14.57%
Lending ratio individual borrower	≤	15%	9.33%	12.21%	6.55%	13.32%
Lending ratio a group of related borrowers	≤	25%	15.91%	23.98%	12.35%	8.27%
Large loans to customers	≤	200%	77.90%	118.26%	46.46%	76.25%
Unsecured loans	≤	25%	14.52%	12.37%	13.95%	15.08%
Average liquid assets: liabilities(1)	≥	30%	37.89%	34.66%	38.07%	24.04%
Investments to equity	≤	50%	28.04%	50.83%	59.47%	48.61%
Investments plus fixed assets to equity	≤	70%	64.44%	83.02%	97.86%	84.47%
Balance sheet open exchange position	≤	20%	0.35%	6.01%	−7.41%	2.02%
Cumulative open exchange position	≤	20%	5.24%	12.96%	−6.05%	4.06%

(1) Until 2008, the mandatory average liquid assets: liabilities ratio was required to be no less than 30.0%. Under the Georgian FSA Order of 26 September 2008, the minimum ratio was reduced to 20.0%. From 1 October 2010, the minimum ratio increased back up to 30.0% following the NBG notifying commercial banks of the increase in writing. Notably, no relevant amendments were made to the Georgian FSA Order of 26 September 2008.

On a stand-alone basis, commencing prior to 2009 and continuing through January 2011 the Bank was in breach of the "Investment plus fixed assets to equity" financial ratio and the "Investments to equity" financial ratio set by the regulator. On 15 December 2008, the Bank received a letter from the Georgian FSA (the regulatory authority at the time) confirming that the Georgian FSA would not impose any sanctions on the Bank provided that the Bank complied with the ratio no later than 31 December 2009 and restricted the Bank from investing in shares and fixed assets of more than GEL 2 million in aggregate, without the Georgian FSA's prior approval. On 31 December 2009, the Bank received a letter from the NBG (the regulatory authority at the time) confirming that the NBG would not impose any sanctions on the Bank as a result of breach of financial ratios, subject to (i) the NBG reserving its right to require the Bank to sell its investments or fixed assets in order to comply with the aforementioned financial ratios; and (ii) the Bank only investing in shares and fixed assets in an amount exceeding GEL 5.0 million (in aggregate) after having sought the NBG's prior approval. The NBG has since confirmed (by a letter dated 27 December 2010) the validity of this waiver through 1 January 2012, subject to the conditions set out in (i) and (ii) above. The Bank is no longer in breach of any applicable financial ratios and has not been in breach since the end of February 2011.

Reserve Requirements

Under the NBG Law, the NBG may establish reserve requirements for banks and it may impose a fine on a bank that fails to comply with these reserve requirements. In the past, based on various economic and financial considerations, the NBG has been imposing at times identical and at times differentiated reserve requirements for domestic and foreign currencies.

From 1994 until 2003, identical minimal reserve requirements were established for domestic and foreign currencies, with rates ranging from a maximum of 20% to a minimum of 12%. Beginning in September 2003, the NBG established different rate requirements for funds in domestic and foreign currencies. In 2007, the minimal reserve requirements were re-established at identical rates for domestic and foreign currencies (13%). However, in April 2010, the NBG imposed different rates for minimal reserves for funds in domestic and foreign currencies, which were applicable until January 2011, when identical rates were introduced once again (10%)

In February 2011, the NBG issued a new rule on minimum reserve requirements (approved by Order No. 10/04) (which was further amended in June and July 2011). Based on this Order, currently effective minimal reserve requirements are set at 10% for Lari funds and 15% for all foreign currency funds (except borrowed funds with a remaining term of between 365 and 730 days, for which the minimal reserve requirement is 5%). Effective requirements do not further distinguish between funds borrowed from residents or non-residents.

In order to support the development of securities emissions by commercial banks in Georgia, the NBG does not require that commercial banks include the amount of capital (or equivalent funds) when calculating such reserves.

If a bank's licence is revoked, its mandatory reserves are included in the pool of assets available for distribution to the bank's creditors in the order of priority established by law. If the revocation of a banking licence was caused by reorganisation of the bank, the mandatory reserves are transferred to the legal successor of the bank.

Provisioning

Pursuant to the "Regulation on Asset Classification and Creation and Use of Reserves for Losses by Commercial Banks", approved by order of the NBG President No. 350 of 29 December 2000, loans are classified into five risk categories and banks are required to create reserves at the levels indicated below:

- *Standard Loans.* Where principal and interest are being paid in a timely manner: 2.0%
- *Watch Loans.* Where some deficiencies or trends are apparent that represent a minor credit risk, past due interest is unpaid and has been added to principal, or a payment is overdue by less than 30 days: 10.0%
- *Substandard Loans.* Where the financial capability of the borrower or the value of the collateral has declined to such an extent that it jeopardises repayment, an unsecured or partially secured loan is more than 30 days past due, or a secured loan is more than 60 days overdue: 30.0%
- *Doubtful Loans.* Where repayment under existing conditions is considered doubtful, an unsecured or partially secured loan is more than 90 days overdue, or a fully secured loan is more than 120 days overdue: 50.0%
- *Loss Loans.* Where the borrower is insolvent, payments are overdue by more than 150 days, or anticipated recoverable amounts are so small that collection efforts will be more expensive: 100.0%

Where a single borrower has received several loans from a bank, each loan may be categorised individually based on the underlying collateral.

Losses should be recognised in the reporting period in which they are identified as being non-collectable and they should be written off the balance sheet for that period. After loans are written off the books, they should remain on an off-balance-sheet account for five years while the bank makes diligent efforts to collect past due interest and principal.

Reporting Requirements

All banks are subject to inspection by the NBG. Inspectors may examine a bank's accounts, books, documents and other records and those of its subsidiaries and may require its offices, employees and agents to provide any and all information and documents upon their request. On-site inspections are risk-based, concentrating on loan portfolio quality, asset qualification, collateral quality and loan application decisions. Banks are required to submit annual external audit reports together with the audited annual IFRS financial statements to the NBG and to publish them. Banks are also required to submit different mandatory, NBG rules-based financial reports to the NBG, in a specially designed format (templates) on a regular basis (daily, weekly, monthly, quarterly, annual, decade).

Corporate Governance

Georgia has not adopted a code of corporate governance. In December 2003, the NBG circulated an official letter to Georgian commercial banks requesting them to begin introducing the best corporate governance practices based on the 1999 OECD Corporate Governance Principles. However, no deadline for such implementation has been established.

Regulation of Commercial Bank Employees and Supervisory Board Members

Pursuant to NBG Order No. 234 dated 16 September 2002 (as amended by Order No. 212 dated 30 September 2004, Order No. 241 dated 6 September 2006 and Order No. 33 dated 7 February 2007)**,** all managers and senior personnel of commercial banks must fulfil the following criteria in order to ensure that they are fit for the position:

- each member of the bank's management board, director and deputy director of a branch or similar structural unit must have a university degree in economics, finance, banking, business administration, audit, accounting or law;
- the chief accountant and deputy chief accountant of the bank and of each branch must have a university degree in economics, finance, banking, business administration, auditing or accounting;
- each member of the bank's management board must have relevant qualifications and professional experience and at least four years' experience in the banking and finance sectors, including two years as a senior manager (head or deputy head of a structural unit);
- the director and deputy director of a branch and the head and deputy head of a department (service centre) of a bank must have relevant qualifications and professional experience and at least three years' experience in the banking and finance sectors, including one year as a senior manager (head or deputy head of a structural unit);
- the chief accountant and deputy chief accountant of the bank must have at least three years' experience working in the banking and finance sectors;
- the chief accountant and deputy chief accountant of a branch must have at least two years' experience working in the banking and finance sectors;
- a person to be appointed to the office of manager or senior personnel may not be a member of the supervisory board or the audit committee of the same bank and/or of any other commercial bank, non-bank depository institution — credit union or a member of the management board or other senior officer of any other enterprise;
- there should not be a request from the NBG to the supervisory board and/or the management board of a bank with respect to dismissal of the person to be appointed to such office from his or her current position;
- no member of the management board may be the spouse, child or other close relative of another member of the same bank's management board; and
- the chief accountant and deputy chief accountant of the bank or any branch of the bank may not be the spouse, child or close relative of a member of management board of the same bank or the same branch.

According to the Banking Law, a person may not serve as a member of the management board of a bank if he or she (a) does not meet the compliance criteria applicable to a director of a bank (described above); (b) is not authorised to hold a seat in the management board pursuant to law; (c) has been declared bankrupt; or (d) is a spouse, child or a close relative of a member of the management board of the same bank.

As an additional requirement, no one who: (a) has been declared legally incapable by the court; (b) has been convicted of legalisation of illicit income and/or terrorism financing; (c) has no relevant education and/or experience; (d) is a director/senior officer or a member of the supervisory board of another commercial bank (except when this other bank is controlling or controlled by the bank); or (e) has been convicted of an economic crime, may be a manager or senior officer of a bank.

The compliance criteria listed in (a) to (e) in the Paragraph above also apply to the members of the supervisory board of a bank. Furthermore, no person may be elected to the supervisory board of a bank who: (a) is a member of the supervisory board or the management board of more than seven enterprises registered in Georgia; (b) is a director/senior officer or a member of the supervisory board of another commercial bank registered in Georgia (except when this other bank is controlling or controlled by the bank); (c) is not authorised to hold a seat in the supervisory board pursuant to law; or (d) has been declared bankrupt.

Regulation of Commercial holders of Bank Shares

Pursuant to the Banking Law, a person who has been convicted of legalisation of illicit income, terrorist financing or economic crime, may not hold a significant shareholding (defined as more than 10% of either the authorised share capital or of the fully paid-up issued share capital held directly or indirectly) in a commercial bank.

Pursuant to the Banking Law, a person who intends to acquire shares in a Georgian bank and who, as a result of the relevant acquisition, would hold or beneficially own more than 10%, 25% or 50% of the share capital of the bank, must submit a declaration to and obtain prior approval from, the NBG. Generally, the NBG should issue or deny its consent within one month from the date of submission of the declaration; however, if the information provided by the applicant is not satisfactory to the NBG, it may extend this term by up to three months.

A transaction by which a person acquires directly or indirectly more than 10% of the authorised share capital or fully paid-up issued share capital of a Georgian bank, without submission of a declaration to the NBG or despite the NBG's refusal, is deemed to be null and void.

If there are grounds for suspicion, the NBG may request a bank to submit a declaration about direct/indirect or beneficial holders of more than 10% of the authorised share capital or fully paid-up issued share capital of the bank. In this case, the NBG is entitled to temporarily or indefinitely suspend the voting rights of a relevant person or request that such person reduces his or her shareholding to 10%

There are certain reporting obligations related to the ownership of a significant shareholding of a Georgian bank. Pursuant to the Banking Law, commercial banks are required to submit to the NBG, together with the annual report, information on the nominal and beneficial holders of more than 10% of the capital of the commercial bank. Such information must be prepared in reliance on the information available to the commercial bank and the commercial bank must further note whether or not it confirms the accuracy thereof. In addition, in April of each year beneficial holders (direct or indirect) of more than 10% of the capital of a commercial bank are required to submit a declaration, setting out the level of their shareholding in the commercial bank as of December of the preceding year.

Regulatory Capital

The current minimum regulatory capital requirement for commercial banks as established by the NBG Order No. 144 dated 23 May 2006, is GEL 12.0 million. Under Georgian law, a commercial bank's "regulatory capital" comprises the sum of its Tier I and Tier II capital, less certain deductions, as defined in the Georgian FSA Order No. 9 dated 30 September 2008.

This relatively high regulatory capital requirement was intended by the NBG to encourage further consolidation in the Georgian banking sector, through the merger of small banks or their takeover by medium or large banks. The NBG is responsible for implementing anti-monopoly policy with respect to mergers and takeovers in the banking sector. The NBG has not set any limitations on the number of banks in the market and any investor which can meet the minimum regulatory capital requirements and satisfy all other requirements is eligible to receive a banking licence.

Anti-Money Laundering Legislation

The Law of Georgia on Facilitating Elimination of the Legalisation of Illegal Income (the **"Anti-Money Laundering Law"** or **"AML Law"**) was adopted in June 2003 and came into force on 1 January 2004. The AML Law strengthened control over the movement of funds within Georgia and introduced a new independent public law entity, the FMS, to monitor and supervise anti-money laundering measures and to issue orders setting out further preventative measures and reporting requirements that should be complied with. The FMS operates as an independent body under the auspices of the NBG. The FMS conducts its activities in close cooperation with MONEYVAL (the anti-money laundering body of the Council of Europe, of which Georgia is a member) and in accordance with the Financial Action Task Force recommendations and EU directives, notwithstanding the fact that Georgia is not a member of either of the latter two bodies.

Under the AML Law, all banks are obliged to monitor and report to the FMS all suspicious transactions, irrespective of value, and certain types of transactions listed in the AML Law if the value of a transaction, or any group of transactions (where one transaction has been broken down into several component transactions), exceeds GEL 30,000 (or the foreign currency equivalent). If the FMS receives a report of a transaction that it believes may be related to the laundering of illicit income or the financing of terrorism, the report must be forwarded to the appropriate departments of the Office of the Prosecutor General of Georgia and the Ministry of Internal Affairs of Georgia.

In December 2005, Parliament adopted amendments to the Criminal Code of Georgia and the Criminal Procedure Code of Georgia to ensure that they were in compliance with the Council of Europe Strasbourg Convention of 1990 on "Laundering Search, Seizure and Confiscation of the Proceeds of Crime".

Georgia had no statutory KYC regulations until June 2008. Prior to that, in 2005 the NBG formally requested that banks conduct relationships with clients according to the "Core Principles for Effective Banking Supervision" (**"CPEBS"**) published by the Basel Committee on Banking Supervision. Even before statutory KYC regulations were introduced, most banks employed compliance officers who adhered to CPEBS in practice. In its Georgian Banking System Development Strategy for 2006-2009, the NBG proposed introducing a mandatory KYC policy. In line with this proposal, on 13 June 2008, pursuant to an amendment to the Rule for Information Collecting, Systematizing, Processing and Reporting by the Commercial Banks, the FMS introduced rules which require commercial banks to follow mandatory KYC policies and procedures.

The NBG is authorised to carry out on-site inspections of anti-money laundering issues and has dedicated budget and personnel to carry out such inspections and report to the FMS on breach of any anti-money laundering regulations.

Insolvency Regime

The NBG is entitled to revoke the banking licence of any bank that becomes insolvent. Upon revocation of its licence, the bank is liquidated in accordance with the procedure set forth in the Banking Law. During the liquidation period, any secured claims will be repaid to the bank's creditors in accordance with the terms of the relevant security agreement (up to the value of the security). All other legitimate claims will be settled in the following order:

- *first:* all claims of the NBG and other lenders which arose after revocation of the bank's licence;
- *second:* amounts on the accounts of natural persons not exceeding GEL 1,500;
- *third:* amounts on the accounts of natural persons not paid under the second item above;
- *fourth:* amounts on the accounts of legal entities;
- *fifth:* indebtedness to the State Budget, including claims secured by tax liens; and
- *sixth:* all other claims against the bank.

If the available funds are insufficient to fully cover all claims listed in the second, third, fourth and fifth categories above, all of the claims of each creditor within the relevant category shall be paid on a pro-rata basis and the claims of the subsequent category shall be paid only after the claims of the previous category have been fully paid.

Deposit Insurance

There is currently no mandatory deposit insurance scheme in Georgia. According to the Georgian Banking System Development Strategy for 2006-2009, the NBG had plans to introduce mandatory deposit insurance in order to enhance public trust in the Georgian banking sector. As of the date of this Prospectus, a mandatory deposit insurance scheme has not been implemented and no timetable exists as to when such a mandatory scheme will be introduced. It is anticipated that certain banks with insufficient financial strength would need to be closed or merged before the introduction of the scheme to minimise the risk of immediate depletion of the deposit insurance fund.

Reform of the Banking Sector

In its Georgian Banking System Development Strategy for 2006-2009, the NBG had set out a number of objectives which it considered to be important to the further development of the banking system in Georgia. Some of the key targets for 2009 included: (i) the development of a mandatory deposit insurance system to insure all deposits in the amount of GEL 3,000-5,000 (or the foreign currency equivalent); (ii) the creation of a credit history agency; (iii) the amendment of the Banking Law to improve compliance criteria for significant shareholders in Georgian banks (holding 10% or more); (iv) application of prudential regulations in a manner consistent with Basel I; (v) improvement of the principles of capital adequacy calculation; and (vi) amendment of legislation to develop financial and capital markets. The NBG (and the Georgian FSA while it existed) has taken certain steps aimed at implementing targets listed in items (iii)-(vi); however, a lot remains to be achieved in this regard. The NBG has not yet issued a document describing the banking system development strategy for the coming years.

According to information published by the NBG, it is working on a draft law on payment systems. The proposed law, if passed, will create a legal framework for important issues such as payment systems, payment services and rights and obligations of the parties involved in payment services and electronic finance, among other things.

PART XXIV

ACCEPTANCE DOCUMENTS

Part A

Form of Acceptance

ACCEPTANCE NOTICE OF TENDER OFFER REGARDING SHARES ISSUED BY JSC BANK OF GEORGIA

Acceptor (registered holder)

Name / Company: ____

Passport/ID No. / Company ID No.: ____

Permanent residence / Company office: ____

Name and position of person(s) authorised to act on behalf of the accepting shareholder: ____

Phone No.: ____

E-mail: ____

On 21 December 2011, Bank of Georgia Holdings Plc, incorporated and registered in England and Wales under the Companies Act 2006 with registered number 7811410 (the **"Offeror"**), published a tender offer proposal (the **"Tender Offer Proposal"**). The Tender Offer Proposal contains an offer by the Offeror to acquire ordinary shares, **ISIN:** GE1100000276 issued by **JSC Bank of Georgia**, having its registered office at 3 Pushkin Street, Tbilisi, Georgia, reg. No. 204378869 (hereinafter referred to as the **"Ordinary BOG Shares"**), in consideration for newly issued ordinary shares in the share capital of Bank of Georgia Holdings Plc (**"BGH Offer Shares"**) with one BGH Share being issued for each tendered Ordinary BOG Share (the **"Offer"**).

I hereby give my unconditional instruction to accept the Offer, including all Offer conditions stipulated in the Tender Offer Documents, relating to the number of Ordinary BOG Shares specified below.

Number of Ordinary BOG Shares: ____

Account No. with JSC Kavkasreestri: ____

Account maintained by: JSC Kavkasreestri

In__________________on__________________

____

Signature of the accepting registered holder

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other authorised independent financial adviser.

This form of acceptance notice ("Acceptance Notice") should be read in conjunction with the accompanying Tender Offer Proposal. Unless the context otherwise requires, the definitions contained in the Tender Offer Proposal also apply in this Acceptance Notice.

This Acceptance Notice does not constitute an offer to sell, or the solicitation of an offer to buy, any BGH Offer Shares, in any jurisdiction in which such offer or solicitation is unlawful. The BGH Offer Shares have not been and will not be registered under any of the applicable securities laws of Australia, Canada, Japan, Russia, Ukraine or any other jurisdiction where to do so would violate the laws of that jurisdiction (each, a "Restricted Jurisdiction"). Subject to certain exceptions, the BGH Offer Shares may not be offered or sold within a Restricted Jurisdiction or to any national, resident or citizen of a Restricted Jurisdiction.

Part B

Certification Form for Bank Shareholders

CERTIFICATION FORM

This is the certification form for use by holders of Bank Shares who wish to accept the Offer.

Bank of Georgia Holdings Plc

(incorporated and registered in England and Wales under the Companies Act 2006 with registered number 7811410)

Recommended tender offer (the "Offer") by BGH of one BGH Offer Share for each ordinary share of Joint Stock Company Bank of Georgia (the "Bank" or "Bank of Georgia") whether held in the form of a global depositary receipt (each, a "GDR") or held in the form of an ordinary share (each, a "Bank Share") in connection with the proposed introduction of BGH as the new holding company of the Bank of Georgia group of companies and the proposed application for admission of up to 36,512,553 BGH Offer Shares to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange.

BANK SHARE ISIN: GE1100000276

This document must be read in conjunction with the Tender Offer Documents. Terms used in this document and not defined shall have the meaning assigned to them in the Tender Offer Documents. All Bank Shareholders who wish to accept the Offer must complete the information below and sign this Certification Form. Bank Shareholders that are unable to certify in accordance with this Certification Form may not accept the Offer.

Bank Shareholders must send the signed Certification Form by hand delivery, mail, courier or fax to the Georgian Exchange Agent to be received before the Expiration Time as follows:

If by Hand Delivery, Mail or Courier:

BG Capital
7 Chavchavadze Ave.
0179 Tbilisi
Georgia

If by Facsimile: +995 322 23 58 04

Facsimile Confirmation: +995 322 44 46 85

If a broker, nominee or other intermediary is accepting the Offer on behalf of multiple registered owners of the Bank Shares, a Certification Form must be completed and returned in respect of each registered owner.

Total number of Bank Shares tendered for acceptance in the Offer: ______________________

Registered owner: ______________________

Registered holder (if different from the registered owner): ______________________

____

Telephone: ______________________

Fax: ______________________

E-mail: ______________________

In addition to completing and sending this signed Certification Form to the Georgian Exchange Agent, Bank Shareholders will need (1) either (i) to complete and sign a Form of Acceptance and send it to the Georgian Exchange Agent; or (ii) to make the acceptance orally to the designated representative of the Georgian Exchange Agent, provided that the Georgian Exchange Agent confirms the receipt of acceptance to the relevant Bank Shareholder in writing; and (2) to transfer, or arrange for the transfer of, the Bank Shares that they are tendering for acceptance to BGH's account with the Georgian Exchange Agent in accordance with the requirements of the Tender Offer Proposal, in each case to be received by the Georgian Exchange Agent before the Expiration Time.

By accepting the Offer and completing and delivering this Certification Form, you certify, acknowledge, represent and agree to the following statements:

General Authorities and Undertakings:

1. You are (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it is) the holder of the number of Bank Shares specified above.

2. You agree (or if you are accepting of the Offer on behalf of another person, such person has confirmed to you that it agrees) to the terms and conditions contained in the Tender Offer Documents.

US, Non-US and Restricted Jurisdiction Securities Laws Restrictions:

3. You are (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it is) **either**:

   ☐ A US Holder

   or

   ☐ A Non-US Holder

   Please check the appropriate box.

4. If you are (or if you are accepting the Offer on behalf of another person and if such person has confirmed to you that it is) a US Holder:

   (a) you are (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it is) a QIB or an Institutional Accredited Investor and, if you are (or if such person) is acquiring BGH Offer Shares as a fiduciary or agent for one or more investor accounts, you confirm (or if you are accepting the Offer on behalf of another person, such person has confirmed to you) that each owner of such account is a QIB or an Institutional Accredited Investor;

   (b) you are (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it is) aware, and each prospective registered owner of BGH Offer Shares has been advised, that the BGH Offer Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and that the offer and sale to you or it (or to such registered owner) is being made in a transaction exempt from registration under the Securities Act;

   (c) you are acquiring BGH Offer Shares for your own account or for the account of a QIB or an Institutional Accredited Investor as to which you have full investment discretion (and you have full power and authority to make the acknowledgements, representations and agreements herein on behalf of each owner of such account), in each case, for investment purposes and not with a view to, or for offer or sale in connection with, any distribution (within the meaning of the United States securities laws) thereof; or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it is acquiring BGH Offer Shares for its own account or for the account of a QIB or an Institutional Accredited Investor as to which it has full investment discretion (and that it has full power and authority to make the acknowledgements, representations and agreements herein through you on behalf of each owner of such account), in each case, for investment purposes and not with a view to, or for offer or sale in connection with, any distribution (within the meaning of the United States securities laws) thereof;

   (d) you are (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it is) aware that the BGH Offer Shares will be "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act;

   (e) you understand and agree (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it understands and agrees) that, although offers and sales of the BGH Offer Shares in connection with the Offer are being made to QIBs and Institutional Accredited Investors, all such offers and sales are being made pursuant to Section 4(2) of the Securities Act and not pursuant to Rule 144A thereunder with respect to offers and sales to QIBs;

(f) you are an institution and you, and each other QIB or Institutional Accredited Investor, if any, for whose account you are acquiring the BGH Offer Shares in exchange for the Bank Shares (i) have such knowledge and experience in financial and business matters that you are/it is capable of evaluating the risks and merits of an investment in the BGH Offer Shares and (ii) have the financial ability to bear the economic risk of an investment in the BGH Offer Shares and adequate means for providing for current needs and possible contingencies; or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it is an institution and it, and each other QIB or Institutional Accredited Investor, if any, for whose account it is acquiring the BGH Offer Shares in exchange for the Bank Shares (i) have such knowledge and experience in financial and business matters that they are/it is capable of evaluating the risks and merits of an investment in the BGH Offer Shares and (ii) have the financial ability to bear the economic risk of an investment in the BGH Offer Shares and adequate means for providing for current needs and possible contingencies; and

(g) you have had (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it has had) access to the financial and other information regarding BGH that you have/it has requested in connection with your/its investment decision to subscribe for or acquire BGH Offer Shares in exchange for the Bank Shares and you have/it has made its own assessment concerning the relevant tax, legal and other economic considerations relevant to your/its investment in the BGH Offer Shares.

5. If you are (or if you are accepting the Offer on behalf of another person and if such person has confirmed to you that it is) a Non-US Holder:

(a) you have not (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it has not) received or sent copies or originals of the Tender Offer Documents or any related documents in, into or from the United States;

(b) you have not (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it has not) otherwise utilised in connection with the Offer, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, e-mail, telex, telephone, internet or other forms of electronic communication) of interstate or foreign commerce of, or any facilities of a national securities exchange of, the United States;

(c) you are not (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it is not) acting on a non-discretionary basis (as agent, nominee, custodian, trustee or otherwise) for or on behalf of a principal, unless such principal has given any instructions with respect to the Offer from outside the United States;

(d) you are (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it is) accepting the Offer from outside the United States and you were/it was outside the United States at the time of your/its acceptance of the Offer; and

(e) you are not (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it is not) accepting the Offer with a view to the offer, sale, resale or delivery, directly or indirectly, of any BGH Offer Shares in or into the United States and will not hold or acquire any BGH Offer Shares for any person who you have/it has reason to believe is purchasing for the purpose of such offer, sale, resale or delivery.

6. You acknowledge (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it acknowledges) that: (a) BGH Offer Shares have not been, and will not be, registered under the Securities Act, or under any securities laws of any state or other jurisdiction of the United States; (b) the BGH Offer Shares may not be offered, sold, pledged or otherwise transferred, except (i) outside the United States in offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S or (ii) pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction; (c) the registered owner of BGH Offer Shares may not deposit or cause to be deposited such BGH Offer Shares into any depositary receipt facility in respect of the BGH Offer Shares established or maintained by a depositary bank, other than a Rule 144A restricted depositary receipt facility, for so long as such shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act; and (d) no representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for the resale of BGH Offer Shares.

7. You acknowledge (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it acknowledges) that acquirers of BGH Offer Shares must notify any subsequent transferees of any applicable resale or transfer restrictions relating to the BGH Offer Shares as set out in Paragraph 6 of this Certification Form.

8. You have not (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it has not) received or sent copies or originals of the Tender Offer Proposal or any related documents in, into or from a Restricted Jurisdiction.

9. You have not (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it has not) otherwise utilised in connection with the Offer, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, e-mail, telex, telephone, internet or other forms of electronic communication) of interstate or foreign commerce of, or any facilities of a national securities exchange of, any Restricted Jurisdiction.

10. You are not (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it is not) acting on a non-discretionary basis (as agent, nominee, custodian, trustee or otherwise) for or on behalf of a principal, unless such principal has given any instructions with respect to the Offer from outside a Restricted Jurisdiction.

11. If you are (or if you are accepting the Offer on behalf of another person and if such person has confirmed to you that it is) a citizen, resident or national of a jurisdiction outside the United Kingdom or Georgia, you have (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it has) observed the laws and regulatory requirements of the relevant jurisdiction in connection with the Offer, obtained all requisite governmental, exchange control or other consents, complied with all other necessary formalities and paid any issue, transfer or other taxes or duties or other requisite payments due in any such jurisdiction in connection with such acceptance and that you have not (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it has not) taken or omitted to take any action that will or may result in BGH, the Bank, the Georgian Exchange Agent, the Exchange Agent, the UK Registrar, the Depositary, ING or any other person acting in breach of any legal or regulatory requirements of any such jurisdiction in connection with the Offer or your/its acceptance of the Offer.

12. You are (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it is) accepting the Offer from outside a Restricted Jurisdiction and you were/it was outside those jurisdictions at the time of your/its acceptance of the Offer.

13. You are not (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it is not) accepting the Offer with a view to the offer, sale, resale or delivery, directly or indirectly, of any BGH Offer Shares in or into any Restricted Jurisdiction and will not hold or acquire any BGH Offer Shares for any person who you have/it has reason to believe is purchasing for the purpose of such offer, sale, resale or delivery.

14. If you are (or if you are accepting the Offer on behalf of another person and if such person has confirmed to you that it is) a corporation or a legal entity, you are (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it is) duly incorporated and existing pursuant to the legislation of the jurisdiction of your/its incorporation, and the acceptance of the Offer orally or through completion and delivery of the Form of Acceptance and the completion and delivery of this Certification Form and/or, in each case, any action envisaged in connection therewith does not and will not violate any provisions of your/its constitutional documents, conflict with any agreements to which you are/it is a party, or violate or be contrary to any law (regulatory act) or non-normative act, resolution, order, decision or other act of any state authority, decision, order, writ or other act of a court of any jurisdiction, court of arbitration or arbitration panel applicable to us/it.

Governing Law and Submission to Jurisdiction

15. You agree (and if you are accepting the Offer on behalf of another person, such person has confirmed to you that it agrees) that this Certification Form and any claim, counterclaim or dispute of any kind or nature whatsoever arising out of or in any way relating to this Certification Form shall be governed by and construed in accordance with English law, except that the statutory tender offer provisions relating to the Bank Shares shall be governed by Georgian law.

16. Your execution of this Certification Form constitutes your submission (or, if you are accepting the Offer on behalf of another person, such person has confirmed to you that such person so submits) to the exclusive

jurisdiction of the courts of England and Wales to settle any dispute arising out of or connected with the Offer, except in relation to those matters over which the courts of Georgia have exclusive jurisdiction.

Reliance on Certification

17. You acknowledge and agree (or if you are accepting the Offer on behalf of another person, such person has confirmed to you that it acknowledges and agrees) that each of BGH, the Bank, the Georgian Exchange Agent, the Exchange Agent, the UK Registrar, the Depositary, ING and each of their affiliates, employees, directors and officers and counsel may rely on the instructions, certifications, representations, acknowledgements and agreements made in this Certification Form and that such instructions, certifications, representations, acknowledgements and agreements will be deemed to be given as of the date on which you accept the Offer and at all stages of the Offer thereafter through and including the date of the distribution of the BGH Offer Shares.

Signed and delivered:

____

[Name of certifying entity]

By: ______________________________

Title: ______________________________

Part C

Certification Form for Regulation S GDR Holders

CERTIFICATION FORM

This is the certification form for use by holders of Regulation S GDRs who wish to instruct the Exchange Agent to accept the Offer.

Bank of Georgia Holdings Plc

(incorporated and registered in England and Wales under the Companies Act 2006 with registered number 7811410)

Recommended tender offer (the "Offer") by BGH of one BGH Offer Share for each ordinary share of Joint Stock Company Bank of Georgia (the "Bank" or "Bank of Georgia") whether held in the form of a global depositary receipt (each, a "GDR") or held in the form of an ordinary share (each, a "Bank Share") in connection with the proposed introduction of BGH as the new holding company of the Bank of Georgia group of companies and the proposed application for admission of up to 36,512,553 BGH Offer Shares to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange.

Regulation S / CUSIP: 062269204
Regulation S / ISIN: US0622692046
Regulation S / Common Code: 027418325

This document must be read in conjunction with the Prospectus. Terms used in this document and not defined shall have the meaning assigned to them in the Prospectus. All Regulation S GDR Holders who wish to instruct the Exchange Agent to accept the Offer must complete the information below and sign this Certification Form. Regulation S GDR Holders that are unable to certify in accordance with this Certification Form may not instruct the Exchange Agent to accept the Offer.

Regulation S GDR Holders do not need to return this Certification Form, but are required to complete and retain on file an original executed version and may be required to furnish such original executed Certification Form promptly upon the request of BGH or the Exchange Agent at any time. If a Clearing System participant is instructing the Exchange Agent to accept the Offer on behalf of multiple Regulation S GDR Holders, a Certification Form must be completed and retained on file for record purposes by each Regulation S GDR Holder.

Euroclear/Clearstream Instruction Reference No.: ______________________________

Total number of Regulation S GDRs as to which instructions are being given to the Exchange Agent to accept the Offer: ______________________________

Participant name: ______________________________

Contact person at participant: ______________________________

Telephone: ______________________________

Fax: ______________________________

E-mail: ______________________________

Address of participant: ______________________________

____

In addition to completing and retaining this Certification Form, Regulation S GDR Holders will need to provide an Electronic Instruction in order to instruct the Exchange Agent to accept the Offer in accordance with the relevant procedures of, and deadlines set by, the relevant Clearing System(s). By submitting or delivering an Electronic Instruction through a Clearing System, a Regulation S GDR Holder is deemed to authorise the relevant Clearing System to disclose their identity, holdings and Clearing System account details to the Exchange Agent which may disclose such information to BGH, the Bank, the Georgian Exchange Agent, the Exchange Agent, the UK Registrar, the Depositary or their respective employees, officers or advisers. All Regulation S GDR Holders who wish to instruct the Exchange Agent to accept the Offer must submit their Electronic Instruction through the relevant Clearing System(s) and in accordance with the detailed instructions given by the Clearing System(s).

ONLY A DIRECT PARTICIPANT OF THE CLEARING SYSTEMS MAY ELECTRONICALLY CERTIFY AS TO THE STATUS OF A GDR HOLDER AND CERTAIN OTHER MATTERS, IN ACCORDANCE WITH THE CERTIFICATIONS, REPRESENTATIONS, ACKNOWLEDGMENTS AND AGREEMENTS SET FORTH BELOW. A REGULATION S GDR HOLDER THAT IS NOT A PARTICIPANT OF THE CLEARING SYSTEMS MUST ARRANGE FOR THE PARTICIPANT OF THE RELEVANT CLEARING SYSTEM THROUGH WHICH IT HOLDS GDRS ELECTRONICALLY TO ELECT AND CERTIFY AS TO ELIGIBLE GDR HOLDER STATUS ON BEHALF OF SUCH GDR HOLDER IN ACCORDANCE WITH THE INSTRUCTIONS AND PROCEDURES OF, AND DEADLINES ESTABLISHED BY, THE RELEVANT CLEARING SYSTEM. A GDR HOLDER (DIRECTLY OR INDIRECTLY THROUGH A PARTICIPANT OF THE CLEARING SYSTEMS) WHO TIMELY AND VALIDLY ELECTRONICALLY CERTIFIES ITS STATUS AS AN ELIGIBLE GDR HOLDER BY GIVING AN ELECTRONIC INSTRUCTION IN ACCORDANCE WITH THE INSTRUCTIONS AND PROCEDURES OF, AND DEADLINES ESTABLISHED BY, THE CLEARING SYSTEMS MUST HAVE CAREFULLY READ THIS CERTIFICATION FORM AND THE PROSPECTUS.

Each participant giving an Electronic Instruction certifies, acknowledges, represents and agrees to the following statements:

General Authorities and Undertakings:

1. You are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) the holder of the number of Regulation S GDRs specified in the Electronic Instruction.

2. You represent, warrant, acknowledge, undertake and agree (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it represents, warrants, acknowledges, undertakes and agrees) as provided in Paragraph 5.3(d) of Part B of Part XVIII of the Prospectus.

US, Non-US and Restricted Jurisdiction Securities Laws Restrictions:

3. You are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) **either**:

   ☐ A US Holder

   or

   ☐ A Non-US Holder

   Please check the appropriate box.

4. If you are (or if you are instructing the acceptance of the Offer on behalf of another person and if such person has confirmed to you that it is) a US Holder:

   (a) you are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) a QIB or an Institutional Accredited Investor and, if you are (or if such person) is acquiring BGH Offer Shares as a fiduciary or agent for one or more investor accounts, you confirm (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you) that each owner of such account is a QIB or an Institutional Accredited Investor;

   (b) you are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) aware, and each prospective beneficial owner of BGH Offer Shares has been advised, that the BGH Offer Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and that the offer and sale to you or it (or such beneficial owner) is being made in a transaction exempt from registration under the Securities Act;

   (c) you are acquiring BGH Offer Shares for your own account or for the account of a QIB or an Institutional Accredited Investor as to which you have full investment discretion (and you have full power and authority to make the acknowledgements, representations and agreements herein on behalf of each owner of such account), in each case, for investment purposes and not with a view to, or for offer or sale in connection with, any distribution (within the meaning of the United States securities laws) thereof; or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is acquiring BGH Offer Shares for its own account or for the account of a QIB or an Institutional Accredited Investor as to which it has full investment discretion (and that it has full power and authority to make the acknowledgements, representations and agreements herein through you on behalf of each owner of such account), in each case, for investment purposes and not with a view to, or for offer or sale in connection with, any distribution (within the meaning of the United States securities laws) thereof;

(d) you are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) aware that the BGH Offer Shares will be "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act;

(e) you understand and agree (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it understands and agrees) that, although offers and sales of the BGH Offer Shares are being made to QIBs and Institutional Accredited Investors, all such offers and sales are being made pursuant to Section 4(2) of the Securities Act and not pursuant to Rule 144A thereunder with respect to offers and sales to QIBs;

(f) you are an institution and you, and each other QIB or Institutional Accredited Investor, if any, for whose account you are acquiring the BGH Offer Shares (i) have such knowledge and experience in financial and business matters that you are/it is capable of evaluating the risks and merits of an investment in the BGH Offer Shares and (ii) have the financial ability to bear the economic risk of an investment in the BGH Offer Shares and adequate means for providing for current needs and possible contingencies; or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is an institution and it, and each other QIB or Institutional Accredited Investor, if any, for whose account it is acquiring the BGH Offer Shares (i) have such knowledge and experience in financial and business matters that they are/it is capable of evaluating the risks and merits of an investment in the BGH Offer Shares and (ii) have the financial ability to bear the economic risk of an investment in the BGH Offer Shares and adequate means for providing for current needs and possible contingencies; and

(g) you have had (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it has had) access to the financial and other information regarding BGH that you have/it has requested in connection with your/its investment decision to subscribe for or acquire BGH Offer Shares and you have/it has made its own assessment concerning the relevant tax, legal and other economic considerations relevant to your/its investment in the BGH Offer Shares.

5. If you are (or if you are instructing the acceptance of the Offer on behalf of another person and if such person has confirmed to you that it is) a Non-US Holder:

(a) you have not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it has not) received or sent copies or originals of the Prospectus or any related documents in, into or from the United States;

(b) you have not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it has not) otherwise utilised in connection with the Offer, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, e-mail, telex, telephone, internet or other forms of electronic communication) of interstate or foreign commerce of, or any facilities of a national securities exchange of, the United States;

(c) you are not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is not) acting on a non-discretionary basis (as agent, nominee, custodian, trustee or otherwise) for or on behalf of a principal, unless such principal has given any instructions with respect to the Offer from outside the United States;

(d) you are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) giving an instruction to accept the Offer from outside the United States and you were/it was outside the United States at the time of the input and delivery of the Electronic Instruction; and

(e) you are not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is not) making an instruction to accept the Offer with a view to the offer, sale, resale or delivery, directly or indirectly, of any BGH Offer Shares in or into the United States and will not hold or acquire any BGH Offer Shares for any person who you have/it has reason to believe is purchasing for the purpose of such offer, sale, resale or delivery.

6. You acknowledge (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it acknowledges) that: (a) BGH Offer Shares have not been, and will not be, registered under the Securities Act, or under any securities laws of any state or other jurisdiction of the United States; (b) the BGH Offer Shares may not be offered, sold, pledged or otherwise transferred, except (i) outside the United States in offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S or (ii) pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction; (c) the beneficial owner of BGH Offer Shares may not deposit or cause to be deposited such BGH Offer Shares into any depositary receipt facility in respect of the BGH Offer Shares established or maintained by a depositary bank, other than a Rule 144A restricted depositary receipt facility, for so long as such shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act; and (d) no representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for the resale of BGH Offer Shares.

7. You acknowledge (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it acknowledges) that acquirers of BGH Offer Shares must notify any subsequent transferees of any applicable resale or transfer restrictions relating to the BGH Offer Shares as set out in Paragraph 6 of this Certification Form.

8. You have not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it has not) received or sent copies or originals of the Prospectus or any related documents in, into or from a Restricted Jurisdiction.

9. You have not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it has not) otherwise utilised in connection with the Offer, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, e-mail, telex, telephone, internet or other forms of electronic communication) of interstate or foreign commerce of, or any facilities of a national securities exchange of, any Restricted Jurisdiction.

10. You are not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is not) acting on a non-discretionary basis (as agent, nominee, custodian, trustee or otherwise) for or on behalf of a principal, unless such principal has given any instructions with respect to the Offer from outside a Restricted Jurisdiction.

11. If you are (or if you are instructing the acceptance of the Offer on behalf of another person and if such person has confirmed to you that it is) a citizen, resident or national of a jurisdiction outside the United Kingdom or Georgia, you have (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it has) observed the laws and regulatory requirements of the relevant jurisdiction in connection with the Offer, obtained all requisite governmental, exchange control or other consents, complied with all other necessary formalities and paid any issue, transfer or other taxes or duties or other requisite payments due in any such jurisdiction in connection with such acceptance and that you have not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it has not) taken or omitted to take any action that will or may result in BGH, the Bank, the Georgian Exchange Agent, the Exchange Agent, the UK Registrar, the Depositary, ING or any other person acting in breach of any legal or regulatory requirements of any such jurisdiction in connection with the Offer or your/its instruction to accept the Offer.

12. You are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) giving an instruction to accept the Offer from outside a Restricted Jurisdiction and you were/it was outside those jurisdictions at the time of the input and delivery of the Electronic Instruction.

13. You are not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is not) making an instruction to accept the Offer with a view to the offer, sale, resale or delivery, directly or indirectly, of any BGH Offer Shares in or into any Restricted Jurisdiction and will not hold or acquire any BGH Offer Shares for any person who you have/it has reason to believe is purchasing for the purpose of such offer, sale, resale or delivery.

14. If you are (or if you are instructing the acceptance of the Offer on behalf of another person and if such person has confirmed to you that it is) a corporation or a legal entity, you are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) duly incorporated and existing pursuant to the legislation of the jurisdiction of your/its incorporation, and the acceptance of the Offer and the giving of the Electronic Instruction, this Certification Form, and/ or, in each case, any action envisaged in connection therewith does not and will not violate any provisions of your/its constitutional documents, conflict with any agreements to which you are/it is a party, or violate or be contrary to any law (regulatory act) or non-normative act, resolution, order, decision or other act of any state authority, decision, order, writ or other act of a court of any jurisdiction, court of arbitration or arbitration panel applicable to you/it.

Govering law and submission to Jurisdiction:

15. You agree (and if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it agrees) that this Certification Form and any claim, counterclaim or dispute of any kind or nature whatsoever arising out of or in any way relating to this Certification Form shall be governed by and construed in accordance with English law, except that the statutory tender offer provisions relating to the Bank Shares shall be governed by Georgian law.

16. Your execution of this Certification Form constitutes your submission (or, if you are accepting the Offer on behalf of another person, such person has confirmed to you that such person so submits) to the exclusive jurisdiction of the courts of England and Wales to settle any dispute arising out of or connected with the Offer, except in relation to those matters over which the courts of Georgia have exclusive jurisdiction.

Reliance on Certification:

17. You acknowledge and agree (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it acknowledges and agrees) that each of BGH, the Bank, the Georgian Exchange Agent, the Exchange Agent, the UK Registrar, the Depositary, ING and each of their respective affiliates, employees, directors and officers and counsel may rely on the instructions, certifications, representations, acknowledgements and agreements made in this Certification Form and that such instructions, certifications, representations, acknowledgements and agreements will be deemed to be given as of the date on which you give the Electric Instruction and at all stages of the Offer thereafter through and including the date of the distribution of the BGH Offer Shares.

Signed and delivered:

____

[Name of certifying entity]

By: ______________________________

Title: ______________________________

Note: Regulation S GDR Holders do not need to return this Certification Form, but are required to complete and retain on file an original executed version and may be required to furnish such original executed Certification Form promptly upon the request of BGH or the Exchange Agent at any time.

Part D

Certification Form for Rule 144A GDR Holders

CERTIFICATION FORM

This is the certification form for use by holders of Rule 144A GDRs who wish to instruct the Exchange Agent to accept the Offer.

Bank of Georgia Holdings Plc

(incorporated and registered in England and Wales under the Companies Act 2006 with registered number 7811410)

Recommended tender offer (the "Offer") by BGH of one BGH Offer Share for each ordinary share of Joint Stock Company Bank of Georgia (the "Bank" or "Bank of Georgia") whether held in the form of a global depositary receipt (each, a "GDR") or held in the form of an ordinary share (each, a "Bank Share") in connection with the proposed introduction of BGH as the new holding company of the Bank of Georgia group of companies and the proposed application for admission of up to 36,512,553 BGH Offer Shares to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange.

Rule 144A / CUSIP: 062269105
Rule 144A / ISIN: US0622691055
Rule 144A / Common Code: 027417914

This document must be read in conjunction with the Prospectus. Terms used in this document and not defined shall have the meaning assigned to them in the Prospectus. All Rule 144A GDR Holders who wish to instruct the Exchange Agent to accept the Offer must complete the information below and sign this Certification Form. Rule 144A GDR Holders that are unable to certify in accordance with this Certification Form may not instruct the Exchange Agent to accept the Offer. Rule 144A GDR Holders must also complete a Delivery Instruction Notice.

Rule 144A GDR Holders must send the signed Certification Form and the Delivery Instruction Notice by hand delivery, mail, courier or fax to the Exchange Agent to be received before the GDR Expiration Time as follows:

If by Mail:

BNY Mellon Shareowner Services
Attn: Corporate Actions Department
P.O. Box 3301
South Hackensack
NJ 07606-1901

If by Hand or Overnight Courier:

BNY Mellon Shareowner Services
Attn: Corporate Actions Department
27th Floor
480 Washington Boulevard
Jersey City
NJ 07310

If by Facsimile:

1 (201) 680 4626
Facsimile Confirmation: 1 (201) 680 4860

If a DTC participant is instructing the Exchange Agent to accept the Offer on behalf of multiple Rule 144A GDR Holders, a Certification Form and a Delivery Instruction Notice must be completed and returned in respect of each Rule 144A GDR Holder.

Voluntary Offer Instruction Number: ______________________________

Total number of Rule 144A GDRs as to which instructions are being given to the Exchange Agent to accept the Offer: ______________________________

Participant name: ______________________________

Contact person at participant: ______________________________

Telephone: ______________________________

Fax: ______________________________

E-mail: ______________________________

Address of participant: ______________________________

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Broker name: ______________________________

In addition to completing and sending a signed Certification Form and a Delivery Instruction Notice to the Exchange Agent and in order to instruct the Exchange Agent to accept the Offer, Rule 144A GDR Holders will need to give, or procure the giving of, an ATOP Instruction within DTC transferring the relevant number of Rule 144A GDRs to the account of the Exchange Agent to be received before the GDR Expiration Time. DTC participants may set their own earlier cut-off dates and times for customers to give instructions to accept the Offer. GDR Holders who hold Rule 144A GDRs through a broker, dealer, commercial bank, trust company or other nominee or person must contact that firm or person to determine the cut-off date and time applicable to them.

By giving, or procuring the giving of, an ATOP Instruction, you certify, acknowledge, represent and agree to the following statements:

General Authorities and Undertakings:

1. You are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) the holder of the number of Rule 144A GDRs specified in the ATOP Instruction.

2. You represent, warrant, acknowledge, undertake and agree (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it represents, warrants, acknowledges, undertakes and agrees) as provided in Paragraph 5.4(i) of Part B of Part XVIII of the Prospectus.

US, Non-US and Restricted Jurisdiction Securities Laws Restrictions:

3. You are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) **either**:

   ☐ A US Holder

   or

   ☐ A Non-US Holder

   Please check the appropriate box.

4. If you are (or if you are instructing the acceptance of the Offer on behalf of another person and if such person has confirmed to you that it is) a US Holder:

   (a) you are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) a QIB or an Institutional Accredited Investor and, if you are (or if such person) is acquiring BGH Offer Shares as a fiduciary or agent for one or more investor accounts, you confirm (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you) that each owner of such account is a QIB or an Institutional Accredited Investor;

   (b) you are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) aware, and each prospective beneficial owner of BGH Offer Shares has been advised, that the BGH Offer Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and that the offer and sale to you or it (or such beneficial owner) is being made in a transaction exempt from registration under the Securities Act;

(c) you are acquiring BGH Offer Shares for our own account or for the account of a QIB or an Institutional Accredited Investor as to which you have full investment discretion (and you have full power and authority to make the acknowledgements, representations and agreements herein on behalf of each owner of such account), in each case, for investment purposes and not with a view to, or for offer or sale in connection with, any distribution (within the meaning of the United States securities laws) thereof; or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is acquiring BGH Offer Shares for its own account or for the account of a QIB or an Institutional Accredited Investor as to which it has full investment discretion (and that it has full power and authority to make the acknowledgements, representations and agreements herein through you on behalf of each owner of such account), in each case, for investment purposes and not with a view to, or for offer or sale in connection with, any distribution (within the meaning of the United States securities laws) thereof;

(d) you are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) aware that the BGH Offer Shares will be "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act;

(e) you understand and agree (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it understands and agrees) that, although offers and sales of the BGH Offer Shares are being made to QIBs and Institutional Accredited Investors, all such offers and sales are being made pursuant to Section 4(2) of the Securities Act and not pursuant to Rule 144A thereunder with respect to offers and sales to QIBs;

(f) you are an institution and you, and each other QIB or Institutional Accredited Investor, if any, for whose account you are acquiring the BGH Offer Shares (i) have such knowledge and experience in financial and business matters that you are/it is capable of evaluating the risks and merits of an investment in the BGH Offer Shares and (ii) have the financial ability to bear the economic risk of an investment in the BGH Offer Shares and adequate means for providing for current needs and possible contingencies; or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is an institution and it, and each other QIB or Institutional Accredited Investor, if any, for whose account it is acquiring the BGH Offer Shares (i) have such knowledge and experience in financial and business matters that they are/it is capable of evaluating the risks and merits of an investment in the BGH Offer Shares and (ii) have the financial ability to bear the economic risk of an investment in the BGH Offer Shares and adequate means for providing for current needs and possible contingencies; and

(g) you have had (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it has had) access to the financial and other information regarding BGH that you have/it has requested in connection with your/its investment decision to subscribe for or acquire BGH Offer Shares and you have/it has made its own assessment concerning the relevant tax, legal and other economic considerations relevant to your/its investment in the BGH Offer Shares.

5. If you are (or if you are instructing the acceptance of the Offer on behalf of another person and if such person has confirmed to you that it is) a Non-US Holder:

(a) you have not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it has not) received or sent copies or originals of the Prospectus or any related documents in, into or from the United States;

(b) you have not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it has not) otherwise utilised in connection with the Offer, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, e-mail, telex, telephone, internet or other forms of electronic communication) of interstate or foreign commerce of, or any facilities of a national securities exchange of, the United States;

(c) you are not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is not) acting on a non-discretionary basis (as agent, nominee, custodian, trustee or otherwise) for or on behalf of a principal, unless such principal has given any instructions with respect to the Offer from outside the United States;

(d) you are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) giving an instruction to accept the Offer from outside the United States and you were/it was outside the United States at the time of the input and delivery of the ATOP Instruction; and

(e) you are not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is not) making an instruction to accept the Offer with a view to the offer, sale, resale or delivery, directly or indirectly, of any BGH Offer Shares in or into the United States and will not hold or acquire any BGH Offer Shares for any person who you have/it has reason to believe is purchasing for the purpose of such offer, sale, resale or delivery.

6. You acknowledge (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it acknowledges) that: (a) BGH Offer Shares have not been, and will not be, registered under the Securities Act, or under any securities laws of any state or other jurisdiction of the United States; (b) the BGH Offer Shares may not be offered, sold, pledged or otherwise transferred, except (i) outside the United States in offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S or (ii) pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction; (c) the beneficial owner of BGH Offer Shares may not deposit or cause to be deposited such BGH Offer Shares into any depositary receipt facility in respect of the BGH Offer Shares established or maintained by a depositary bank, other than a Rule 144A restricted depositary receipt facility, for so long as such shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act; and (d) no representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for the resale of BGH Offer Shares.

7. You acknowledge (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it acknowledges) that acquirers of BGH Offer Shares must notify any subsequent transferees of any applicable resale or transfer restrictions relating to the BGH Offer Shares as set out in Paragraph 6 of this Certification Form.

8. You have not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it has not) received or sent copies or originals of the Prospectus or any related documents in, into or from a Restricted Jurisdiction.

9. You have not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it has not) otherwise utilised in connection with the Offer, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, e-mail, telex, telephone, internet or other forms of electronic communication) of interstate or foreign commerce of, or any facilities of a national securities exchange of, any Restricted Jurisdiction.

10. You are not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is not) acting on a non-discretionary basis (as agent, nominee, custodian, trustee or otherwise) for or on behalf of a principal, unless such principal has given any instructions with respect to the Offer from outside a Restricted Jurisdiction.

11. If you are (or if you are instructing the acceptance of the Offer on behalf of another person and if such person has confirmed to you that it is) a citizen, resident or national of a jurisdiction outside the United Kingdom or Georgia, you have (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it has) observed the laws and regulatory requirements of the relevant jurisdiction in connection with the Offer, obtained all requisite governmental, exchange control or other consents, complied with all other necessary formalities and paid any issue, transfer or other taxes or duties or other requisite payments due in any such jurisdiction in connection with such acceptance and that you have not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it has not) taken or omitted to take any action that will or may result in BGH, the Bank, the Georgian Exchange Agent, the Exchange Agent, the UK Registrar, the Depositary, ING or any other person acting in breach of any legal or regulatory requirements of any such jurisdiction in connection with the Offer or your/its instruction to accept the Offer.

12. You are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) giving an instruction to accept the Offer from outside a Restricted Jurisdiction and you were/it was outside those jurisdictions at the time of the input and delivery of the ATOP Instruction.

13. You are not (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is not) making an instruction to accept the Offer with a view to the offer, sale, resale or delivery, directly or indirectly, of any BGH Offer Shares in or into any Restricted Jurisdiction and will not hold or acquire any BGH Offer Shares for any person who you have/it has reason to believe is purchasing for the purpose of such offer, sale, resale or delivery.

14. If you are (or if you are instructing the acceptance of the Offer on behalf of another person and if such person has confirmed to you that it is) a corporation or a legal entity, you are (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it is) duly incorporated and existing pursuant to the legislation of the jurisdiction of your/its incorporation, and the acceptance of the Offer and the giving of the ATOP Instruction, this Certification Form and/or, in each case, any action envisaged in connection therewith does not and will not violate any provisions of your/its constitutional documents, conflict with any agreements to which you are/it is a party, or violate or be contrary to any law (regulatory act) or non-normative act, resolution, order, decision or other act of any state authority, decision, order, writ or other act of a court of any jurisdiction, court of arbitration or arbitration panel applicable to you/it.

Governing Law and Submission to Jurisdiction:

15. You agree (and if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it agrees) that this Certification Form and any claim, counterclaim or dispute of any kind or nature whatsoever arising out of or in any way relating to this Certification Form shall be governed by and construed in accordance with English law, except that the statutory tender offer provisions relating to the Bank Shares shall be governed by Georgian law.

16. Your execution of this Certification Form constitutes your submission (or, if you are accepting the Offer on behalf of another person, such person has confirmed to you that such person so submits) to the exclusive jurisdiction of the courts of England and Wales to settle any dispute arising out of or connected with the Offer, except in relation to those matters over which the courts of Georgia have exclusive jurisdiction.

Reliance on Certification:

17. You acknowledge and agree (or if you are instructing the acceptance of the Offer on behalf of another person, such person has confirmed to you that it acknowledges and agrees) that each of BGH, the Bank, the Georgian Exchange Agent, the Exchange Agent, the UK Registrar, the Depositary, ING and each of their respective affiliates, employees, directors and officers and counsel may rely on the instructions, certifications, representations, acknowledgements and agreements made in this Certification Form and that such instructions, certifications, representations, acknowledgements and agreements will be deemed to be given as of the date on which you give the ATOP Instruction and at all stages of the Offer thereafter through and including the date of the distribution of the BGH Offer Shares.

Signed and delivered:

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[Name of certifying entity]

By: ______________________________

Title: ______________________________

Part E

Delivery Instruction Notice for Rule 144A GDR Holders

DELIVERY INSTRUCTION NOTICE

Bank of Georgia Holdings Plc

(incorporated and registered in England and Wales under the Companies Act 2006 with registered number 7811410)

Recommended tender offer (the "Offer") by BGH of one BGH Offer Share for each ordinary share of Joint Stock Company Bank of Georgia (the "Bank" or "Bank of Georgia") whether held in the form of a global depositary receipt (each, a "GDR") or held in the form of an ordinary share (each, a "Bank Share") in connection with the proposed introduction of BGH as the new holding company of the Bank of Georgia group of companies and the proposed application for admission of up to 36,512,553 BGH Offer Shares to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange

Rule 144A / CUSIP: 062269105
Rule 144A / ISIN: US0622691055
Rule 144A / Common Code: 027417914

From: BNY Mellon Shareowner Services, the Exchange Agent

To: Holders of Joint Stock Company Bank of Georgia Global Depositary Receipts (GDRs)

Dear GDR Holder:

- **On 5 September 2011, the Bank announced the intention to re-domicile to the United Kingdom and list on the premium segment of the Official List. This will be implemented by means of the Offer made by BGH for Bank Shares held in the form of Bank Shares or GDRs on the terms and conditions set out in the offer document published on 20 December 2011 (the "Prospectus").**
- **Under the Offer, GDR Holders who instruct acceptance of the Offer will be entitled to receive one (1) BGH Offer Share for each one (1) GDR validly tendered. You should transmit your instruction through DTC's ATOP and insert the Voluntary Offer Instruction Number below. Pursuant to the Prospectus, if you have requested to take book-entry delivery of the BGH ordinary shares in CREST, you must complete, execute and return this Delivery Instruction Notice, which should be received by the Exchange Agent, BNY Mellon Shareowner Services, not later than 5 p.m. (New York time)/10.00 p.m. (London time) on 20 February 2012.**

By Hand/Overnight Courier:	By Mail:
BNY Mellon Shareowner Services	BNY Mellon Shareowner Services
Attn: Corporate Action Dept — 27th Floor	Attn: Corporate Action Dept
480 Washington Boulevard	P.O. Box 3301
Jersey City, N.J. 07310	South Hackensack, N.J. 07606

For submission of Delivery Instruction Card via fax: 1 (201) 680 4626

☐ ***REQUEST FOR BOOK-ENTRY OF BGH OFFER SHARES IN CREST**: By checking this box, I/we hereby exercise my/our request to take book-entry of the BGH Offer Shares in book-entry delivery in CREST. Please use this as authorization to deliver the shares in CREST as follows:*

- ***Voluntary Offer Instruction #*** ______________________
- ***Number of JSC Bank of Georgia Rule 144A GDRs presented for exchange:*** ______________________
- ***Name of Local Custodian Bank/Broker in CREST to which the Bank of Georgia Holdings plc ordinary shares are to be delivered:*** ______________________
- ***CREST Participant ID:*** ☐ ☐ ☐ ☐ ☐
- ***Member Account:*** ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐

☐ ***REQUEST FOR DELIVERY OF THE BGH OFFER SHARES IN CERTIFICATED FORM**: By checking this box, I/we hereby exercise my/our request to take delivery of the BGH Offer Shares in certificated form. Please use this as authorization to issue a certificate and mail such certificate to the address indicated below:*

- ***Voluntary Offer Instruction #*** ______________________
- ***Number of JSC Bank of Georgia Rule 144A GDRs presented for exchange:*** ______________________

Share Certificate Request:

Name of Shareholder: ______________________

____

____

Address: ______________________

____

____

____

City: ______________________

State: ______________________

Country: ______________________

Zip Code: ______________________

- ***Contact Details:***

  Name: ______________________

  Telephone number: ______________________

PLACE MEDALLION GUARANTEE IN SPACE BELOW

Name of Firm: ______________________

Address: ______________________

(Include Zip Code)

Authorized Signature: ______________________

Name(s): ______________________

Area Code and Telephone Number: ______________________

Dated: ______________________, 20 ________

If the Exchange Agent does not receive your Delivery Instruction Notice by the GDR Expiration Time or the CREST details contained in this Delivery Instruction Notice are incorrect, you will be issued BGH Offer Shares in certificated form and the delivery of the BGH Offer Shares to which you are entitled under the Offer will be delayed.

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PART XXV

INDEX TO FINANCIAL STATEMENTS

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Tbilisi, 0105, Georgia
Tel: +995 (32) 43 9375
Fax: +995 (32) 43 9376
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შპს ერნსტ ენდ იანგი
საქართველო, 0105 თბილისი
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of JSC Bank of Georgia and its subsidiaries, which comprise the consolidated statement of financial position as at 30 June 2011 and the consolidated income statement, consolidated statements of comprehensive income, of changes in equity and of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of JSC Bank of Georgia and its subsidiaries as at 30 June 2011 and their financial performance and their cash flows for the six months then ended in accordance with International Financial Reporting Standards.

26 August 2011

ERNST & YOUNG LLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

(Thousands of Georgian Lari)

	Notes	As at 30 June 2011	31 December 2010	31 December 2009	31 December 2008
Assets					
Cash and cash equivalents	7	338,408	611,584	357,889	415,821
Amounts due from credit institutions	8	308,067	116,469	64,620	81,403
Loans to customers	9	2,375,110	2,351,697	1,661,331	2,039,022
Finance lease receivables	10	64,791	14,419	16,896	41,605
Investment securities:					
– available-for-sale	11	404,317	294,940	19,590	33,737
– held-to-maturity	11	21	21	249,196	22,845
Investments in associates	12	3,758	5,632	10,323	16,716
Investment properties	13	99,353	113,496	79,509	47,289
Property and equipment	14	278,429	285,852	278,729	301,784
Goodwill	15	56,212	69,212	65,777	134,238
Other intangible assets	15	21,741	22,390	19,665	18,221
Current income tax assets	16	7,584	2,247	7,997	8,095
Deferred income tax assets	16	13,390	18,178	15,487	4,691
Prepayments		27,845	23,365	18,140	18,319
Other assets	18	124,298	75,420	48,280	75,121
Total assets		**4,123,324**	**4,004,922**	**2,913,429**	**3,258,907**
Liabilities					
Amounts due to customers	20	2,228,505	2,026,308	1,273,130	1,193,129
Amounts due to credit institutions	19	986,592	1,138,927	928,615	1,216,722
Current income tax liabilities	16	130	4,251	574	779
Deferred income tax liabilities	16	23,853	30,901	24,661	23,615
Provisions	17, 22	8	4,407	2,126	4,263
Other liabilities	18	132,475	106,787	85,906	101,550
Total liabilities		**3,371,563**	**3,311,581**	**2,315,012**	**2,540,058**
Equity	21				
Share capital		31,360	31,345	31,306	31,253
Additional paid-in capital		478,555	477,285	478,779	468,732
Treasury shares		(1,428)	(1,510)	(1,677)	(2,018)
Other reserves		28,063	26,816	24,387	26,201
Retained earnings		190,749	130,314	46,163	141,491
Total equity attributable to shareholders of the Bank		**727,299**	**664,250**	**578,958**	**665,659**
Non-controlling interests		24,462	29,091	19,459	53,190
Total equity		**751,761**	**693,341**	**598,417**	**718,849**
Total liabilities and equity		**4,123,324**	**4,004,922**	**2,913,429**	**3,258,907**

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

Irakli Gilauri Chief Executive Officer

David Vakhtangishvili Chief Financial Officer

26 August 2011

The accompanying notes on pages 9 to 102 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2011	For the six months ended 30 June 2010 *Unaudited*	For the year ended 31 December 2010	For the year ended 31 December 2009	For the year ended 31 December 2008
Interest income						
Loans to customers		211,466	185,968	389,402	361,176	363,013
Investment securities – available-for-sale		18,352	450	7,287	1,276	6,727
Amounts due from credit institutions		7,669	4,894	9,795	5,037	10,732
Finance lease receivables		1,722	2,136	4,159	5,844	7,010
Investment securities – held-to-maturity		–	6,999	12,498	5,725	16,457
		239,209	**200,447**	**423,141**	**379,058**	**403,939**
Interest expense						
Amounts due to customers		(75,628)	(54,737)	(114,968)	(96,935)	(86,064)
Amounts due to credit institutions		(50,215)	(44,861)	(91,829)	(91,582)	(97,035)
		(125,843)	**(99,598)**	**(206,797)**	**(188,517)**	**(183,099)**
Net interest income		**113,366**	**100,849**	**216,344**	**190,541**	**220,840**
Fee and commission income		43,636	33,641	74,265	64,599	63,503
Fee and commission expense		(9,666)	(6,349)	(10,845)	(9,574)	(13,534)
Net fee and commission income	23	**33,970**	**27,292**	**63,420**	**55,025**	**49,969**
Net insurance premiums earned		23,123	21,827	44,561	45,477	35,911
Net insurance claims incurred		(14,027)	(13,449)	(27,898)	(30,102)	(26,895)
Net insurance revenue	24	**9,096**	**8,378**	**16,663**	**15,375**	**9,016**
Net gains (losses) from trading securities and investment securities available-for-sale		732	2,140	2,006	2,937	(4,934)
Net gains (losses) from derivative financial instruments		2,492	(5,216)	(7,826)	(6,266)	–
Net gains (losses) from revaluation of investment properties	13	–	3,082	350	(4,087)	(389)
Net gains from foreign currencies:						
– dealing		21,112	15,747	33,651	25,945	39,443
– translation differences	25	22,299	431	98	3,138	7,691
Other operating income		12,762	8,173	21,927	12,283	14,747
Other operating non-interest income		**59,397**	**24,357**	**50,206**	**33,950**	**56,558**
Revenue		**215,829**	**160,876**	**346,633**	**294,891**	**336,383**
Salaries and other employee benefits	26	(57,722)	(52,757)	(104,551)	(100,505)	(108,767)
General and administrative expenses	26	(30,582)	(28,433)	(61,000)	(57,339)	(68,649)
Depreciation and amortization	14,15	(12,941)	(13,314)	(27,963)	(25,428)	(20,288)
Other operating expenses		(4,701)	(2,988)	(6,253)	(11,740)	(9,828)
Other operating non-interest expenses		**(105,946)**	**(97,492)**	**(199,767)**	**(195,012)**	**(207,532)**
Operating income before cost of credit risk		**109,883**	**63,384**	**146,866**	**99,879**	**128,851**

The accompanying notes on pages 9 to 102 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the six months ended 30 June 2011

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2011	2010 *Unaudited*	For the year ended 31 December 2010	2009	2008
Operating income before cost of credit risk		**109,883**	**63,384**	**146,866**	**99,879**	**128,851**
Impairment charge on loans to customers	9	(11,331)	(23,878)	(49,886)	(118,882)	(122,812)
(Impairment charge) reversal of impairment on finance lease receivables	10	(171)	592	5,775	(6,859)	(1,335)
Impairment reversal (charge) on other assets and provisions	17	3,240	3,331	(3,587)	(6,431)	(4,551)
Cost of credit risk		**(8,262)**	**(19,955)**	**(47,698)**	**(132,172)**	**(128,698)**
Net operating income (loss)		**101,621**	**43,429**	**99,168**	**(32,293)**	**153**
Impairment charge on goodwill	15	(13,000)	–	–	(73,072)	–
Impairment charge on property and equipment	14	–	–	(435)	(3,200)	(244)
Total impairment of goodwill and property and equipment		**(13,000)**	**-**	**(435)**	**(76,272)**	**(244)**
Share of (loss) profit of associates	12	(251)	–	255	(2,649)	(713)
Other non-operating income	28	–	–	–	5,308	–
Other non-operating expenses	28	(5,452)	(795)	(545)	–	–
Non-operating (expense) income		**(5,703)**	**(795)**	**(290)**	**2,659**	**(713)**
Profit (loss) before income tax (expense) benefit from continuing operations		**82,918**	**42,634**	**98,443**	**(105,906)**	**(804)**
Income tax (expense) benefit	16	(6,926)	(6,289)	(15,776)	6,998	978
Profit (loss) for the period from continuing operations		**75,992**	**36,345**	**82,667**	**(98,908)**	**174**
Net loss from discontinued operations	27	(12,247)	–	–	–	–
Profit (loss) for the period		**63,745**	**36,345**	**82,667**	**(98,908)**	**174**
Attributable to:						
– shareholders of the Bank		63,645	36,248	83,640	(91,370)	3,897
– non-controlling interests		100	97	(973)	(7,538)	(3,723)
		63,745	**36,345**	**82,667**	**(98,908)**	**174**
Earnings (loss) per share, total:	21					
– basic earnings (loss) per share		2.1262	1.2046	2.7846	(2.9963)	0.1292
– diluted earnings (loss) per share		2.0178	1.1996	2.7388	(2.9963)	0.1292
Earnings (loss) per share from continuing operations:	21					
– basic earnings (loss) per share from continuing operations		2.5353	1.2046	2.7846	(2.9963)	0.1292
– diluted earnings (loss) per share from continuing operations		2.3844	1.1996	2.7388	(2.9963)	0.1292

The accompanying notes on pages 9 to 102 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2011	For the six months ended 30 June 2010 (Unaudited)	For the year ended 31 December 2010	For the year ended 31 December 2009	For the year ended 31 December 2008
Profit (loss) for the period from continuing operations		**75,992**	**36,345**	**82,667**	**(98,908)**	**174**
Net loss from discontinued operations		(12,247)	–	–	–	–
Profit (loss) for the period		**63,745**	**36,345**	**82,667**	**(98,908)**	**174**
Other comprehensive (loss) income from continuing operations						
– Revaluation of property & equipment	14, 27	7,479	320	(2,859)	(1,842)	(10,455)
– Revaluation of available-for-sale securities		781	550	6,077	7,533	(9,687)
– Realized gain on available-for-sale securities reclassified to the consolidated income statement		(579)	–	(789)	(174)	(513)
– (Loss) gain from currency translation differences	21	(42,050)	10,380	5,116	(12,145)	(22,435)
– Unrealized gains from dilution in existing subsidiaries		124	–	–	–	–
– Unrealized gain (loss) from acquiring / selling shares in existing subsidiaries		–	4,487	(3,250)	7,624	–
Income tax relating to components of other comprehensive income	16	3,299	(163)	206	(704)	3,189
Other comprehensive (loss) income for the period from continuing operations, net of tax		**(30,946)**	**15,574**	**4,501**	**292**	**(39,901)**
Other comprehensive gain from discontinued operations	27	24,254	–	–	–	–
Other comprehensive (loss) income for the period, net of tax		**(6,692)**	**15,574**	**4,501**	**292**	**(39,901)**
Total comprehensive income (loss) for the period from continuing operations		45,046	51,919	87,168	(98,616)	(39,727)
Total comprehensive income for the period from discontinued operations	27	12,007	–	–	–	–
Total comprehensive income (loss) for the period		**57,053**	**51,919**	**87,168**	**(98,616)**	**(39,727)**
Attributable to:						
– shareholders of the Bank		61,682	51,822	86,580	(91,078)	(36,004)
– non-controlling interests		(4,629)	97	588	(7,538)	(3,723)
		57,053	**51,919**	**87,168**	**(98,616)**	**(39,727)**

The accompanying notes on pages 9 to 102 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

(Thousands of Georgian Lari)

	Attributable to shareholders of the Bank							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2009	**31,306**	**478,779**	**(1,677)**	**24,387**	**46,163**	**578,958**	**19,459**	**598,417**
Total comprehensive income for the six months ended 30 June 2010 (unaudited)	–	–	–	26,084	25,738	51,822	97	51,919
Depreciation of revaluation reserve, net of tax	–	–	–	(540)	540	–	–	–
Increase in share capital arising from share-based payments (Note 21)	18	1,971	249	–	–	2,238	–	2,238
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	–	–	–	(6,249)	(6,249)
Non-controlling interests arising from acquisition of subsidiary	–	–	–	–	–	–	3,925	3,925
Sale of treasury shares	–	3,040	236	–	–	3,276	–	3,276
Purchase of treasury shares	–	(3,565)	(199)	–	–	(3,764)	–	(3,764)
30 June 2010 (unaudited)	**31,324**	**480,225**	**(1,391)**	**49,931**	**72,441**	**632,530**	**17,232**	**649,762**
31 December 2010	**31,345**	**477,285**	**(1,510)**	**26,816**	**130,314**	**664,250**	**29,091**	**693,341**
Total comprehensive income (loss) for the six months ended 30 June 2011	–	–	–	3,140	58,542	61,682	(4,629)	57,053
Depreciation of revaluation reserve, net of tax	–	–	–	(1,893)	1,893	–	–	–
Increase in share capital arising from share-based payments (Note 21)	15	2,103	112	–	–	2,230	–	2,230
Sale of treasury shares	–	18,415	603	–	–	19,018	–	19,018
Purchase of treasury shares	–	(19,248)	(633)	–	–	(19,881)	–	(19,881)
30 June 2011	**31,360**	**478,555**	**(1,428)**	**28,063**	**190,749**	**727,299**	**24,462**	**751,761**
31 December 2007	**27,155**	**315,415**	**(1,737)**	**67,354**	**136,342**	**544,529**	**13,462**	**557,991**
Total comprehensive (loss) income	–	–	–	(39,901)	3,897	(36,004)	(3,723)	(39,727)
Depreciation of revaluation reserve, net of tax	–	–	–	(1,252)	1,252	–	–	–
Issuance of shares arising from business combination (Note 21)	89	573	–	–	–	662	–	662
Increase in share capital arising from share-based payments (Note 21)	9	8,590	341	–	–	8,940	–	8,940
Share offering costs adjustment	–	(357)	–	–	–	(357)	–	(357)
Increase in share capital from issuance of GDRs (Note 21)	4,000	146,594	–	–	–	150,594	–	150,594
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	–	–	–	31,278	31,278
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	12,173	12,173
Sale of treasury shares	–	5,544	256	–	–	5,800	–	5,800
Purchase of treasury shares	–	(7,627)	(878)	–	–	(8,505)	–	(8,505)
31 December 2008	**31,253**	**468,732**	**(2,018)**	**26,201**	**141,491**	**665,659**	**53,190**	**718,849**

The accompanying notes on pages 9 to 102 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2011

(Thousands of Georgian Lari)

	Attributable to shareholders of the Bank							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2008	**31,253**	**468,732**	**(2,018)**	**26,201**	**141,491**	**665,659**	**53,190**	**718,849**
Total comprehensive income (loss)	–	–	–	1,563	(92,641)	(91,078)	(7,538)	(98,616)
Depreciation of revaluation reserve, net of tax	–	–	–	(3,377)	3,377	–	–	–
Increase in share capital arising from share-based payments (Note 21)	53	2,523	153	–	–	2,729	–	2,729
Share offering costs adjustment	–	306	–	–	–	306	–	306
Equity component of compound financial instrument	–	9,769	–	–	–	9,769	–	9,769
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	–	(6,064)	(6,064)	(1,479)	(7,543)
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	–	–	–	(24,730)	(24,730)
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	16	16
Sale of treasury shares	–	1,154	642	–	–	1,796	–	1,796
Purchase of treasury shares	–	(3,705)	(454)	–	–	(4,159)	–	(4,159)
31 December 2009	**31,306**	**478,779**	**(1,677)**	**24,387**	**46,163**	**578,958**	**19,459**	**598,417**
Total comprehensive income	–	–	–	4,692	81,888	86,580	588	87,168
Depreciation of revaluation reserve, net of tax	–	–	–	(2,263)	2,263	–	–	–
Increase in share capital arising from share-based payments (Note 21)	39	8,497	610	–	–	9,146	–	9,146
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	–	–	–	11,973	11,973
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	–	–	–	(6,854)	(6,854)
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	3,925	3,925
Sale of treasury shares	–	7,104	448	–	–	7,552	–	7,552
Purchase of treasury shares	–	(17,095)	(891)	–	–	(17,986)	–	(17,986)
31 December 2010	**31,345**	**477,285**	**(1,510)**	**26,816**	**130,314**	**664,250**	**29,091**	**693,341**

The accompanying notes on pages 9 to 102 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June		For the year ended 31 December		
		2011	2010	2010	2009	2008
			Unaudited			
Cash flows from operating activities						
Interest received		235,487	199,514	412,407	377,043	384,802
Interest paid		(109,550)	(83,179)	(194,622)	(205,054)	(173,534)
Fees and commissions received		43,636	33,641	74,265	64,599	63,503
Fees and commissions paid		(9,666)	(6,349)	(10,845)	(9,574)	(13,534)
Net realized gains (losses) from trading securities		538	2,140	2,267	587	(5,432)
Net realized gains from investments securities		579	–	789	174	498
Net realized gains from foreign currencies		21,112	15,747	33,651	25,945	39,443
Recoveries of previously written off loans to customers and finance lease receivables	9, 10	13,751	15,354	42,739	32,579	11,176
Insurance premiums received		23,614	21,827	46,159	31,319	24,262
Insurance claims paid		(12,420)	(13,449)	(32,007)	(16,801)	(11,095)
Other operating income received		9,369	10,580	9,483	22,022	11,499
Salaries and other employee benefits paid		(56,239)	(50,519)	(93,870)	(88,365)	(106,605)
General and administrative and operating expenses paid		(47,639)	(32,216)	(71,872)	(80,026)	(62,174)
Cash flows from operating activities before changes in operating assets and liabilities		**112,572**	**113,091**	**218,544**	**154,448**	**162,809**
Net (increase) decrease in operating assets						
Amounts due from credit institutions		(196,481)	(13,453)	(45,090)	14,933	22,488
Loans to customers		(41,350)	(355,383)	(813,482)	239,093	(488,574)
Finance lease receivables		(50,549)	4,491	8,252	12,448	3,722
Prepayments and other assets		(5,510)	(15,450)	100	(28,696)	(3,678)
Net increase (decrease) in operating liabilities						
Amounts due to credit institutions		(149,028)	201,387	190,994	(276,916)	339,654
Amounts due to customers		206,699	211,638	731,184	81,713	(216,246)
Other liabilities		(7,530)	2,015	21,981	455	(9,813)
Net cash flows (used in) from operating activities before income tax		**(131,177)**	**148,336**	**312,483**	**197,478**	**(189,638)**
Income tax paid		(7,000)	(1,395)	(3,144)	(1,275)	(19,580)
Net cash flows (used in) from operating activities		**(138,177)**	**146,941**	**309,339**	**196,203**	**(209,218)**
Cash flows from investing activities						
Acquisition of subsidiaries, net of cash acquired	5	–	296	(139)	(2,970)	(41,740)
Proceeds from sale of subsidiary		8,747	–	–	–	–
Proceeds from sale of investment securities: available-for-sale		–	–	1,518	25,323	166,175
Purchase of investment securities: available-for-sale		(105,091)	(17,346)	–	–	–
Purchase of investment securities: held-to-maturity		–	(19,042)	(28,769)	(226,804)	–
Proceeds from sale of investments in associates	12	332	2,003	–	24	860
Purchase of investments in associates		–	–	–	–	(13,355)
Purchase of investment properties	13	–	–	–	(495)	(12,613)
Proceeds from sale of investment properties	13	400	–	5,490	755	–
Proceeds from sale of property and equipment and intangible assets		–	–	13,312	3,404	–
Purchase of property and equipment and intangible assets	14, 15	(34,626)	(18,799)	(41,839)	(27,928)	(122,881)
Net cash flows used in investing activities		**(130,238)**	**(52,888)**	**(50,427)**	**(228,691)**	**(23,554)**

The accompanying notes on pages 9 to 102 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2011

(Thousands of Georgian Lari)

		For the six months ended 30 June		*For the year ended 31 December*		
	Notes	***2011***	***2010***	***2010***	***2009***	***2008***
			Unaudited			
Cash flows from financing activities						
Proceeds from increase in share capital		–	–	–	306	150,594
Purchase of treasury shares		(19,881)	(3,764)	(17,986)	(4,159)	(8,505)
Sale of treasury shares		19,018	3,276	7,552	1,796	5,800
Purchase of additional interests by non-controlling shareholders		–	–	11,973	(1,479)	31,278
Purchase of additional interests in existing subsidiaries, net of cash acquired		–	(6,249)	(6,854)	(24,730)	–
Net cash (used in) from financing activities		**(863)**	**(6,737)**	**(5,315)**	**(28,266)**	**179,167**
Effect of exchange rates changes on cash and cash equivalents		(3,898)	5,487	98	2,822	5,602
Net (decrease) increase in cash and cash equivalents		**(273,176)**	**92,803**	**253,695**	**(57,932)**	**(48,003)**
Cash and cash equivalents, beginning	7	**611,584**	**357,889**	**357,889**	**415,821**	**463,824**
Cash and cash equivalents, ending	7	**338,408**	**450,692**	**611,584**	**357,889**	**415,821**

The accompanying notes on pages 9 to 102 are an integral part of these consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal Activities

JSC Bank of Georgia (the "Bank") was established on 21 October 1994 as a joint stock company ("JSC") under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG"; the Central Bank of Georgia) on 15 December 1994. The Bank is the ultimate parent of a group of companies (the "Group") incorporated in Georgia, Ukraine, Belarus and Cyprus, primary business activities include providing banking, leasing, insurance, brokerage and wealth management services, to corporate and individual customers. The list of companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and international and exchanges currencies. Its main office is in Tbilisi, Georgia. At 30 June 2011 the Bank has 143 operating outlets in all major cities of Georgia (31 December 2010: 142, 31 December 2009: 141, 31 December 2008: 151). The Bank's registered legal address is 3 Pushkin Street, Tbilisi 0105, Georgia.

As at 30 June 2011 and 31 December 2010, 31 December 2009 and 31 December 2008 the following shareholders owned more than 4% of the outstanding shares of the Bank. Other shareholders individually owned less than 4% of the outstanding shares.

Shareholder	*30 June 2011, %*	*31 December 2010, %*	*31 December 2009, %*	*31 December 2008, %*
Bank of New York (Nominees), Limited	90.96%	90.50%	88.86%	77.45%
East Capital Financial Institutions	4.36%	4.36%	4.36%	4.37%
Firebird Avrora Fund	–	–	–	4.68%
Firebird Republics Fund	–	–	–	4.58%
Others (less than 4% individually)	4.68%	5.14%	6.78%	8.92%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

As at 30 June 2011, the members of the Supervisory Board and Board of Directors owned 454,355 shares and Global Depositary Receipts ("GDRs") (or 1.44%; 2010: 448,232 shares and GDRs or 1.43%, 2009: 612,962 shares and GDRs or 1.96%, 2008: 468,827 shares and GDRs or 1.50%) of the Bank. Interests of the members of the Supervisory Board and Management Board were as follows:

Shareholder	*30 June 2011, shares and GDRs held*	*31 December 2010, shares and GDRs held*	*31 December 2009, shares and GDRs held*	*31 December 2008, shares and GDRs held*
Irakli Gilauri	194,379	200,379	216,230	136,303
Sulkhan Gvalia	58,638	60,638	136,049	166,907
Allan Hirst	58,261	56,311	46,772	10,685
Avto Namicheishvili	34,823	34,823	29,999	12,489
Kaha Kiknavelidze	24,320	22,509	15,027	4,938
David Morrison	17,719	15,351	7,342	–
Giorgi Chiladze	14,000	14,333	6,333	–
Irakli Burdiladze	12,334	17,504	23,035	10,036
Mikheil Gomarteli	10,634	10,634	9,916	–
Al Breach	8,262	6,527	–	–
Neil Janin	11,073	3,945	–	–
Vasil Revishvili *	5,908	–	–	–
Ian Hague	3,250	1,578	–	–
Archil Gachechiladze	–	3,700	–	–
Hanna Loikkannen	754	–	–	–
Nicholas Enukidze**	–	–	122,259	75,377
Ramaz Kukuladze***	–	–	–	52,092
Total	**454,355**	**448,232**	**612,962**	**468,827**

(Thousands of Georgian Lari)

1. Principal Activities (continued)

As at 30 June 2011, 281,470 unrestricted (readily available for sale) GDRs owned by the members of the Management Board comprised as follows (in 2010: 292,395, 2009: 419,814, 2008: 313,330):

Member of the Management Board	*30 June 2011*	*31 December 2010*	*31 December 2009*	*31 December 2008*
Irakli Gilauri	192,792	198,792	214,643	134,716
Avto Namicheishvili	34,001	34,001	29,999	11,667
Giorgi Chiladze	14,000	14,333	6,333	–
Irakli Burdiladze	12,334	17,134	22,665	9,666
Sulkhan Gvalia	11,801	13,801	13,999	26,857
Mikheil Gomarteli	10,634	10,634	9,916	–
Vasil Revishvili	5,908	–	–	–
Archil Gachechiladze	–	3,700	–	–
Nicholas Enukidze**	–	–	122,259	74,332
Ramaz Kukuladze***	–	–	–	52,092
Total	**281,470**	**292,395**	**419,814**	**309,330**

**	Was appointed as member of the Management Board on 3 May 2011.*
***	Resigned as chairman of the Supervisory Board of the Bank on 18 May 2010.*
****	Resigned from the Management Board of the Bank on 15 November 2009.*

In addition to shares held, the members of the Management Board were awarded or were committed to award 143,500 GDRs in six months ended 30 June 2011 (in six months ended 30 June 2010: 1,251,922, in 2010: 1,290,711, 2009: 463,912, 2008: 198,139 to the Supervisory Board and Management Board). 143,500 GDRs that were awarded to the Management Board in six months ended 30 June 2011 are subject to two-year vesting. Out of the total of 1,290,711 in 2010, 915,000 shares that were committed to be awarded to the Management Board are subject to four-year vesting and the rest of the awards are subject to three-year vesting.

2. Bases of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank and its Georgian-based subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari in accordance with IFRS, while Subsidiaries established outside of Georgia are in their respective local currencies. These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets and liabilities held for trading, available-for-sale securities, investment properties and revalued property and equipment.

These consolidated financial statements are presented in thousands of Georgian Lari ("GEL"), except per share amounts and unless otherwise indicated.

(Thousands of Georgian Lari)

2. Bases of Preparation (continued)

Subsidiaries

The consolidated financial statements as at 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008 include the following direct and indirect subsidiaries:

Subsidiaries	Ownership / voting, % 30 June 2011	31 December 2010	31 December 2009	31 December 2008	Country of incorporation	Industry	Date of incorporation	Date of acquisition
PJSC Bank Pershyi (formerly known as JSC BG Bank) (k)	19.4%	99.4%	99.4%	99.4%	Ukraine	Banking	26/01/1994	1/10/2007
Valimed, Unitarnoe Predpreyatie (originally LLC)	(l)	100.0%	100.0%	100.0%	Belarus	Investment	14/09/2000	3/06/2008
⇒ Proscale M, UE	–	(e)	100.0%	–	Belarus	Business servicing	15/05/2003	4/12/2009
JSC BG Capital (Georgia) (formerly known as JSC Galt and Taggart Securities)	100.0%	100.0%	100.0%	100.0%	Georgia	Brokerage and asset management	19/12/1995	28/12/2004
⇒ Benderlock Investments Limited	100.0%	100.0%	100.0%	–	Cyprus	Investments	12/05/2009	13/10/2009
⇒ BG Tax Advisory, LLC	100.0%	100.0%	100.0%	100.0%	Georgia	Tax consulting	25/09/2007	–
⇒ BG Commodities (Georgia), LLC	100.0%	100.0%	100.0%	–	Georgia	Commodity Trading	16/04/2009	–
⇒ BG Commodities (Ukraine), LLC	100.0%	100.0%	100.0%	–	Ukraine	Commodity Trading	24/11/2009	–
⇒ Galt and Taggart Holdings Limited	100.0%	100.0%	100.0%	100.0%	Cyprus	Investment	3/07/2006	–
⇒ BG Trading Limited	100.0%	100.0%	100.0%	100.0%	Cyprus	Investment	26/03/2007	–
⇒ JSC Galt and Taggart Securities, SA (Moldova)	–	(f)	95.1%	95.1%	Moldova	Investment	7/07/2008	–
⇒ BG Capital (Ukraine), LLC	100.0%	100.0%	100.0%	100.0%	Ukraine	Brokerage	23/10/2006	–
⇒ BG Capital (Belarus), LLC	100.0%	100.0%	100.0%	100.0%	Belarus	Brokerage	19/02/2008	–
⇒ Brooksby Investments Limited	100.0%	100.0%	100.0%	100.0%	Cyprus	Investments	4/03/2008	18/06/2008
⇒ JSC Belarusky Narodny Bank	79.99%	79.99%	99.98%	70.0%	Belarus	Banking	16/04/1992	3/06/2008
⇒ ⇒ BNB Leasing, LLC	99.9%	99.9%	76.0%	76.0%	Belarus	Leasing	30/03/2006	3/06/2008
⇒ Galt & Taggart Securities MMC, LLC	–	–	(a)	75.0%	Azerbaijan	Investment banking and brokerage services	30/06/2008	–
⇒ GTAM Limited	–	–	(a)	80.0%	Cyprus	Investment activity	23/10/2007	–
⇒ Galt and Taggart Asset Management, LLC	–	–	(a)	100.0%	Georgia	Asset management	31/05/2007	–
⇒ JSC Belorussian Investments	–	–	(a)	100.0%	Georgia	Consumer goods production & distribution	14/05/2008	–
⇒ JSC Liberty Financial Opportunities	–	–	(a)	100.0%	Georgia	Investment	3/09/2008	–
JSC Insurance Company Aldagi BCI	100.0%	100.0%	100.0%	100.0%	Georgia	Insurance	22/06/2007	–
⇒ JSC My Family Clinic	100.0%	100.0%	100.0%	100.0%	Georgia	Healthcare	3/10/2005	–
⇒ JSC Kutaisi St. Nicholas Surgery Hospital	55.0%	55.0%	55.0%	55.0%	Georgia	Medical services	3/11/2000	20/05/2008
⇒ Kutaisi Regional Clinical Hospital, LLC	100.0%	100.0%	–	–	Georgia	Medical services	19/07/2010	1/10/2010
Georgian Leasing Company, LLC	100.0%	100.0%	100.0%	100.0%	Georgia	Leasing	29/10/2001	31/12/2004
⇒ JSC DBL.ge	–	(g)	100.0%	100.0%	Georgia	Investment	23/04/2007	–
⇒ JSC DBL Capital	–	(g)	100.0%	100.0%	Georgia	Brokerage	27/04/2007	–
JSC GC Holdings (formerly LLC)	100.0%	100.0%	100.0%	100.0%	Georgia	Investment	29/10/2007	–
⇒ GC Ukraine, LLC	–	(f)	100.0%	100.0%	Ukraine	Card processing	30/07/2008	–
⇒ JSC Georgian Card	71.78%	71.78%	55.8%	55.7%	Georgia	Card processing	17/01/1997	20/10/2004
⇒ JSC Nova Technology	–	–	(a)	51.0%	Georgia	Electronic payment services	19/03/2007	11/11/2007
⇒ Direct Debit Georgia, LLC	100.0%	100.0%	100.0%	100.0%	Georgia	Electronic payment services	7/03/2006	–
⇒ MetroNet, LLC	100.0%	100.0%	100.0%	100.0%	Georgia	Communication services	23/04/2007	–
JSC SB Real Estate	100.0%	100.0%	61.4%	52.1%	Georgia	Real estate	27/09/2006	–
⇒ Caucasus Autohause, LLC	100.0%	–	–	–	Georgia	Real estate	29/03/2011	–
JSC Liberty Consumer	65.3%	65.3%	65.3%	65.4%	Georgia	Investment	24/05/2006	–
⇒ JSC Teliani Valley	51.85%	52.33%	27.19%	27.19%	Georgia	Winery	30/06/2000	28/02/2007
⇒ ⇒ Teliani Trading (Georgia), LLC	100.0%	100.0%	–	–	Georgia	Distribution	10/01/2006	27/03/2007
⇒ ⇒ Teliani Trading (Ukraine), LLC	100.0%	100.0%	–	–	Ukraine	Distribution	03/10/2006	31/12/2007
⇒ ⇒ Le Caucase, LLC	100.0%	100.0%	–	–	Georgia	Cognac Production	23/09/2006	20/03/2007
⇒ ⇒ Kupa, LLC	70.0%	70.0%	–	–	Georgia	Oak Barrel Production	12/10/2006	20/03/2007
⇒ Vere+, LLC	–	–	(b)	100.0%	Georgia	Real estate	22/05/1996	6/02/2007
⇒ Alegro, LLC	–	–	(c)	100.0%	Georgia	Commercial	9/09/1996	12/03/2008
⇒ JSC SB Outdoor & Indoor	–	(h)	100.0%	100.0%	Georgia	Advertising	9/06/2006	–
⇒ JSC Intertour	97.02%	97.02%	83.6%	83.6%	Georgia	Travel agency	29/03/1996	25/04/2006
⇒ ⇒ Intertour Ukraine, LLC	(l)	100.0%	–	–	Ukraine	Travel agency	19/02/2010	–
⇒ ⇒ Holiday Travel, LLC	100.0%	100.0%	100.0%	100.0%	Georgia	Travel agency	11/02/2005	4/09/2006
⇒ JSC Prime Fitness	100.0%	100.0%	100.0%	100.0%	Georgia	Fitness centre	3/07/2006	–
⇒ Planeta Forte, LLC	51.0%	51.0%	51.0%	–	Georgia	Newspaper Retail	31/10/1995	1/01/2009

(Thousands of Georgian Lari)

2. Bases of Preparation (continued)

Subsidiaries (continued)

Subsidiaries	Ownership / voting, % 30 June 2011	31 December 2010	31 December 2009	31 December 2008	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC Galt and Taggart Holdings (Georgia)	100.0%	100.0%	100.0%	100.0%	Georgia	Investment	4/11/2008	–
⇒ JSC Club 24	–	(i)	100.0%	100.0%	Georgia	Entertainment	27/11/2007	–
⇒ Metro Service +, LLC	100.0%	100.0%	100.0%	100.0%	Georgia	Business servicing	10/05/2006	–
⇒ SB Transport, LLC	–	–	(d)	100.0%	Georgia	Transportation	20/02/2007	–
⇒ JSC SB Trade	–	–	(d)	100.0%	Georgia	Import and distribution	26/02/2007	–
⇒ Georgia Financial Investments, LLC	100.0%	100.0%	100.0%	–	Israel	Information Sharing and Market Research	9/02/2009	–
⇒ Real Estate Brokerage-Presto, LLC	–	(i)	100.0%	100.0%	Georgia	Real estate brokerage	16/11/2007	–
⇒ JSC SB Immobiliare	–	(i)	100.0%	100.0%	Georgia	Real estate, Construction	12/03/2008	–
⇒ JSC SB Iberia	–	(j)	100.0%	49.0%	Georgia	Real estate, Construction	13/12/2007	19/08/2009
⇒ JSC SB Iberia 2	–	(j)	100.0%	49.0%	Georgia	Real estate, Construction	28/03/2008	19/08/2009
⇒ Bank of Georgia Representative Office UK Limited	100.0%	100.0%	–	–	United Kingdom	Information Sharing and Market Research	17/08/2010	–
JSC United Securities Registrar of Georgia	100.0%	100.0%	100.0%	100.0%	Georgia	Registrar	29/05/2006	–

(a) No longer Group subsidiary due to sale in 2009.
(b) No longer Group subsidiary due to liquidation in 2009.
(c) Transferred to JSC Caucasus Energy and Infrastructure (former subsidiary of the Group) in 2009 in exchange of a loan payable.
(d) JSC Galt and Taggart Holdings (Georgia) contributed its investments in JSC SB Trade and SB Transport, LLC to the capital of Club 24, LLC. Both of these companies merged to Club 24, LLC, subsequently reorganized into a joint stock company.
(e) No longer Group subsidiary due to sale in 2010.
(f) No longer Group subsidiary due to liquidation in 2010.
(g) Merged to JSC BG Capital (Georgia) in 2010.
(h) Merged to JSC Prime Fitness in 2010.
(i) Investment in JSC Club 24, Real Estate Brokerage-Presto, LLC and JSC SB Immobiliare had been contributed to the capital of JSC SB Real Estate (SBRE) by JSC Galt and Taggart Holdings (GTH). These subsidiaries (except for GTH) merged to JSC SB Real Estate in 2010.
(j) Merged to JSC SB Immobiliare in 2010.
(k) No longer Group subsidiary due to disposal of controlling stake in 2011.
(l) No longer Group subsidiary due to sale in 2011.

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

The Group has adopted the following amended IFRS and new IFRIC Interpretations during the six months ended 30 June 2011. The principal effects of these changes are as follows:

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment had no impact on the Group's consolidated financial statements.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

IAS 24 "Related party disclosures" (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011. The disclosure of transactions with related parties prepared in accordance with the new version of IAS 24 is presented in Note 33.

IFRIC 14 "Prepayments of a Minimum Funding Requirement (Amended)"

Effective for annual periods beginning on or after 1 January 2011. IFRIC 14 provides further guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is applied retrospectively to the beginning of the earliest period presented in the first financial statements in which the entity applied the original interpretation.

Entities will need to assess whether prepayments made will now need to be re-assessed for their impact on the recoverability of pension assets. Entities applying the corridor approach to recognise actuarial gains and losses will also need to take account of the interaction between the corridor and the recoverability of the plan assets. IFRIC 14 did not have any impact on the Group's consolidated financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 did not have any impact on the Group's consolidated financial statements.

Improvements to IFRSs

In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" had impact on the accounting policies, financial position or performance of the Group, as described below.

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of non-controlling interests that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. The amendments to IFRS 3 have no impact on the consolidated financial statements of the Group.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures.
- IAS 34 Interim Financial Reporting: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Disclosure on transfers of financial instruments between levels of the fair value hierarchy is presented in the Note 31, disclosure on contingent liabilities is presented in the Note 22.
- Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 have no impact on the accounting policies, financial position or performance of the Group.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Reclassifications

The following reclassifications were made to 30 June 2010, 31 December 2010, 31 December 2009 and 31 December 2008 balances to conform with the six months ended 30 June 2011 presentation requirements:

Period Ended	Caption Consolidated Statement of Financial Position:	*As previously reported*	*As reclassified*	*Comment*
31 December 2010	Amounts due to customers	2,004,698	2,026,308	Promissory notes issued are now included in amounts due to customers, due to its increased material size as at 30 June 2011.
31 December 2010	Other liabilities	128,397	106,787	
31 December 2009	Amounts due to customers	1,272,470	1,273,130	
31 December 2009	Other liabilities	86,566	85,906	
31 December 2008	Amounts due to customers	1,193,124	1,193,129	
31 December 2008	Other liabilities	101,555	101,550	
31 December 2010	Interest expenses on amounts due to customers	(114,654)	(114,968)	Interest expenses on promissory notes are now included in interest expenses on amounts due to customers, due to the similar reclassifications made in the statements of financial position.
31 December 2010	Interest expenses on debt securities issued	(314)	–	
31 December 2009	Interest expenses on amounts due to customers	(96,749)	(96,935)	
31 December 2009	Interest expenses on debt securities issued	(186)	–	
31 December 2008	Interest expenses on amounts due to customers	(85,358)	(86,064)	
31 December 2008	Interest expenses on debt securities issued	(706)	–	
30 June 2010	Other operating expenses	(3,783)	(2,988)	Separate disclosure on the face of the income statement due to significance of the exposure in the current period per management's judgment.
30 June 2010	Other non-operating expenses	–	(795)	
31 December 2010	Other operating expenses	(6,798)	(6,253)	
31 December 2010	Other non-operating expenses	–	(545)	
31 December 2009	Other operating income	17,908	12,283	
31 December 2009	Other non-operating income	–	5,308	
30 June 2010	Net (losses) gains from foreign currency translation differences	(1,976)	431	Reclassification of gains from currency swap agreements into foreign currency translation to net off against the currency swap losses for similar contracts.
30 June 2010	Other operating income	10,580	8,173	
31 December 2009	Net (losses) gains from foreign currency translation differences	2,821	3,138	
31 December 2009	Other operating income	17,908	12,283	
31 December 2010	Depreciation, amortization and impairment	(28,398)	–	Separate disclosure on the face of the income statement of impairment charges on goodwill and property and equipment.
31 December 2010	Depreciation and amortization	–	(27,963)	
31 December 2010	Impairment charge on property and equipment	–	(435)	
31 December 2009	Depreciation, amortization and impairment	(101,700)	–	
31 December 2009	Depreciation and amortization	–	(25,428)	
31 December 2009	Impairment charge on goodwill	–	(73,072)	
31 December 2009	Impairment charge on property and equipment	–	(3,200)	
31 December 2008	Depreciation, amortization and impairment	(20,532)	–	
31 December 2008	Depreciation and amortization	–	(20,288)	
31 December 2008	Impairment charge on property and equipment	–	(244)	

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Subsidiaries

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

Business combinations from 1 January 2010

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

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

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

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

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

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

Business combinations prior to 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interests (formerly known as minority interest) were measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Subsidiaries (continued)

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the uniting of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial assets

Initial recognition

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

Date of recognition

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Financial assets (continued)
Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

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

Available-for-sale financial assets

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

Determination of fair value

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Derivative financial instruments

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

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts, and the host contract is not itself held for trading or designated at fair value through profit and loss. The embedded derivatives separated from the host are carried at fair value on the trading portfolio with changes in fair value recognised in the consolidated income statement.

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers or in available-for-sale securities, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

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

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

Leases

i. Finance – Group as lessor

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

ii. Operating – Group as lessee

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

iii. Operating – Group as lessor

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets

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

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

Amounts due from credit institutions and loans to customers

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

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

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

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

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)
Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial assets

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

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

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

Renegotiated loans

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

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

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

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

De-recognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

Financial guarantees

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

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

Taxation

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

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Taxation (continued)

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

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

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

Investment properties

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

Property and equipment

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

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

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

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

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

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

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Property and equipment (continued)

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

Leasehold improvements are amortized over the life of the related leased asset. The assets residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

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

Goodwill

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

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

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

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

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

Other intangible assets

The Group's other intangible assets include computer software and licenses. Computer software and licenses are recognized at cost and amortized using the straight-line method over its useful life, but not exceeding a period of ten years.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Insurance and reinsurance receivables

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

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

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

Insurance liabilities

General insurance liabilities

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

Provision for unearned premiums

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

Liability adequacy test

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

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Provisions for the risk of incurring losses on off-balance sheet commitments is estimated regularly based on the past history of actual losses incurred on these commitments.

Retirement and other employee benefit obligations

The Group provides management and employees of the Group, with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group. The Group collects contributions from its employees. When an employee reaches the pension age, aggregated contributions, plus any earnings earned on the employee's behalf are paid to the employee according to the schedule agreed with the employee. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Share-based payment transactions

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

Equity-settled transactions

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

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

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

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

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

Share capital

Share capital

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

Treasury shares

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

Dividends

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

Contingencies

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

Fee income from providing transaction services

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

Dividend income

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

Insurance premium income

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

Insurance claims

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

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Functional and reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Bank's presentation currency. The Bank's functional currency is US Dollar effective 1 January 2007. Prior to 1 January 2007, Georgian Lari was its functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008 were 1.6665, 1.7728, 1.6858 and 1.6670 Lari to USD 1, 2.4054, 2.3500, 2.4195 and 2.3648 Lari to EUR 1, 2.0903, 2.2272, 2.1156 and 2.1649 Lari to UAH 10 and 3.3572, 5.9093, 5.8882 and 7.5770 to BYR 10,000, respectively.

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

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

Standards and interpretations that are issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

IFRS 9 "Financial Instruments"

In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Group now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRS 10 "Consolidated Financial Statements"

IFRS 10 Consolidated Financial Statements provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective (continued)

IFRS 11 "Joint Arrangements"

IFRS 11 Joint Arrangements improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard - joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. IFRS 11 will not have any impact on the Group's consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 Disclosure of Interests in Other Entities issued in May 2011 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard will require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

IFRS 13 "Fair Value Measurement"

IFRS 13 Fair Value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

Amendment to IAS 19, "Employee benefits"

These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

Improvements to IFRSs

This set of amendments includes changes to six standards and one IFRIC. It is based on the exposure draft issued in August 2009, with an additional change to IFRS 1, "First-time adoption of IFRS", which was exposed as part of the "rate-regulated activities" proposals issued in July 2009. Currently the Group addresses the implications of this set of amendments.

Amendment to IFRS 1, "First time adoption", on fixed dates and hyperinflation

These amendments include two changes to IFRS 1, "First-time adoption of IFRS". The first replaces references to a fixed date of 1 January 2004 with "the date of transition to IFRSs", thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

Amendments to IFRS 7, "Financial instruments: Disclosures" on derecognition

These amendments arise from the IASB's review of off-balance-sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. Earlier application subject to EU endorsement is permitted.

(Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

Improvements to IFRSs (continued)

Amendment to IAS 12, "Income taxes" on deferred tax

IAS 12, "Income taxes", currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, "Investment property". This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, "Income taxes − recovery of revalued non-depreciable assets", will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

Amendment to IAS 1, "Financial statement presentation" regarding other comprehensive income

The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially recycled to profit or loss (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income.

IAS 27 (revised 2011), "Separate financial statements"

This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

IAS 28 (revised 2011), "Associates and joint ventures"

This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

4. Significant Accounting Judgements and Estimates

In the process of applying the Group's accounting policies, management uses its judgment and made estimates in determining the amounts recognized in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Segment reporting

In 2011 management of the Group reformed its presentation of business segments without changing principals of segmentation – only presentation format was amended – to make segment information more comprehensive and aligned with the business management practice of the Group. The Group's segmental reporting is based on the following operating segments: Retail Banking (excluding BG Bank and BNB Retail Banking), Corporate Banking (excluding BG Bank and BNB Retail Banking), Wealth Management, Corporate Center, Insurance & Healthcare (formerly named Insurance due to small size of the healthcare business included in Insurance), Affordable Housing represented by the legal entity JSC SB Real Estate (formerly included in Asset Management segment), BG Capital (formerly named Brokerage), BNB & BGB (a.k.a. JSC Belarusky Narodny Bank and JSC BG Bank, each of them was formerly distributed between Retail Banking and Corporate Banking, according to actual size of their respective Retail Banking and Corporate Banking businesses), Liberty Consumer (formerly included in Asset Management) and Other (comprising JSC Galt & Taggart Holding Georgia, formerly included in Corporate Centre. These operating segments have been further classified into Strategic, Synergistic and Non-Core, effective 1 January 2011.

(Thousands of Georgian Lari)

4. Significant Accounting Judgements and Estimates (continued)

Technical assessment of buildings' useful lives

In January 2011 the Bank finalized technical assessment of all of its buildings. Based on the experts' report estimated useful economic lives have been applied to all buildings starting 1 January 2011, with 100 years being the maximum, based on best estimate considerations of management. Effective 1 January 2011, the straight-line depreciation rates for buildings have been adjusted accordingly. All other factors held equal, result of this re-estimation of useful economic lives translated into decrease of annual depreciation expense by GEL1,365.

Fair value of financial instruments

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

Determination of collateral value

Management monitors market value of collateral on a regular basis. Management uses its experienced judgment or independent opinion to adjust the fair value to reflect current circumstances. The amount and type of collateral required depends on the assessment of credit risk of the counterparty.

Measurement of fair value of investment properties and property and equipment

Fair value of investment properties as well as at the property and equipment is determined by independent professionally qualified appraisers. Fair value is determined using the combination of internal capitalization method (also known as discounted future cash flow method) and sales comparison method.

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

Allowance for impairment of loans and receivables and finance lease receivables

The Group regularly reviews its loans and receivables and finance lease receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Contingent liabilities

The Group is subject to the possibility of various loss contingencies arising in the ordinary course of business. The Group considers the likelihood of the loss or the incurrence of a liability as well as its ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Group regularly evaluates current information available to determine whether such accruals are required. As at 30 June 2011, the Group did not record any contingent liabilities.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

(Thousands of Georgian Lari)

4. Significant Accounting Judgements and Estimates (continued)

Impairment of long-lived assets

Long-lived assets consist primarily of real estate investments, property, investments in associates, goodwill and intangible assets. The Group evaluates the long-lived assets for impairment annually or when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable.

Impairment of investments

The Group holds investments in several companies, including those that do not trade in an active market. Future adverse changes in market conditions or poor operating results could result in losses that may not be reflected in an investment's current carrying value, thereby requiring an impairment charge in the future. The Group regularly reviews its investments to determine if there have been any indicators that the value may be impaired. These reviews require estimating the outcome of future events and determining whether factors exist that indicate impairment has occurred.

5. Business Combinations

Acquisitions in 2010

JSC Teliani Valley

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

	Fair value recognized on acquisition
Cash and cash equivalents	296
Trading securities	954
Accounts receivable	3,596
Property and equipment	8,038
Goodwill and other intangible assets	151
Deferred income tax assets	78
Other assets	6,751
	19,864
Amounts owed to credit institutions	8,622
Accounts payable	916
Deferred income tax liabilities	395
Other liabilities	1,698
	11,631
Total identifiable net assets	**8,233**
Share in fair value of net assets acquired (52.33%)	4,308
Fair value of the previously held equity interests (27.19%)	(3,451)
Goodwill arising on acquisition	3,292
Consideration given [1]	**4,149**

The net cash inflow on acquisition was as follows:

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

[1] Consideration comprised of the Group's investment in available-for-sale investment securities in the form of common shares of JSC Nikora.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2010 (continued)

JSC Teliani Valley (continued)

At the acquisition date, non-controlling interests comprised GEL 3,925 and was measured at the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

Since the acquisition date, the Group recorded GEL 8,293, GEL 355 and GEL 115 of revenue, profit and other comprehensive income, respectively. If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

Kutaisi Regional Clinical Hospital, LLC

On 1 October 2010 JSC My Family Clinic acquired 100% of Kutaisi Regional Clinical Hospital, LLC, a medical services provider company operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from Kutaisi Regional Clinical Hospital, LLC as of the date of acquisition was:

	Fair value recognized on acquisition	***Carrying value***
Property and equipment	658	481
	658	**481**
Accounts payable	17	17
Deferred income tax liabilities	27	27
	44	**44**
Fair value of net assets	**614**	**437**
Share in fair value of net assets acquired (100%)	614	
Negative goodwill arising on acquisition	(179)	
Consideration given	**435**	

The net cash outflow on acquisition was as follows:

	2010
Cash paid	435
Cash acquired with the subsidiary	–
Net cash outflow	**435**

If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

Since the acquisition date, the Group recorded GEL 629 and GEL 98 of revenue and profit, respectively. If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

The total amount of negative goodwill is expected to be taxable upon disposal of the subsidiary.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2009

Planeta Forte, LLC

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

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

The net cash outflow on acquisition was as follows:

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

If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

At the acquisition date, non-controlling interest comprised GEL 16 and was measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2009 (continued)

JSC SB Iberia

On 19 August 2009 JSC SB Immobiliare, a fully owned subsidiary of the Bank acquired 100% of JSC "SB Iberia", a real estate developing company operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities of JSC SB Iberia as of the date of acquisition were estimated at:

	Fair value recognized on acquisition	***Carrying value***
Cash and cash equivalents	11	11
Investment property	4,547	4,547
Deferred income tax assets	826	826
Prepayments	102	102
Other assets	7	7
	5,493	**5,493**
Amounts due to credit institutions	6,900	6,900
Accounts payable (trade & service)	2,156	2,156
Deferred income tax liabilities	12	12
	9,068	**9,068**
Fair value of net assets	**(3,575)**	**(3,575)**
Share in fair value of net assets acquired (100%)	(3,575)	
Goodwill arising on acquisition	3,907	
Consideration given	**332**	

The net cash outflow on acquisition was as follows:

	2009
Cash paid	332
Cash acquired with the subsidiary	(11)
Net cash outflow	**321**

If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2009 (continued)

JSC SB Iberia 2

On 19 August 2009 JSC SB Immobiliare, a fully owned subsidiary of the Bank acquired 100% of JSC "SB Iberia 2", a real estate developing company operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities of JSC SB Iberia 2 as of the date of acquisition were estimated at:

	Fair value recognized on acquisition	***Carrying value***
Cash and cash equivalents	14	14
Investment property	8,083	8,083
Deferred income tax assets	778	778
Prepayments	6	6
Other assets	64	64
	8,945	**8,945**
Amounts due to credit institutions	5,913	5,913
Deferred income tax liabilities	8	8
	5,921	**5,921**
Fair value of net assets	**3,024**	**3,024**
Share in fair value of net assets acquired (100%)	3,024	
Goodwill arising on acquisition	744	
Consideration given	**3,768**	

The net cash outflow on acquisition was as follows:

	2009
Cash paid	2,286
Cash acquired with the subsidiary	(14)
Net cash outflow	**2,272**

If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2008

JSC Belarusky Narodny Bank

On 1 July 2008 the Bank acquired 70% of JSC "Belarusky Narodny Bank", a banking institution operating in Belarus. The fair values of identifiable assets, liabilities and contingent liabilities of JSC Belarusky Narodny Bank as of the date of acquisition were estimated at:

	Fair value recognized on acquisition	***Carrying value***
Cash and cash equivalents	8,908	8,908
Due from credit institutions	1,022	1,022
Loans to customers	36,234	36,234
Deferred tax asset	297	297
Property and equipment	17,445	17,445
All other assets	520	520
	64,426	**64,426**
Amounts due to credit institutions	9,501	9,501
Amounts due to customers	18,231	18,231
All other liabilities	513	513
	28,245	**28,245**
Fair value of net assets	**36,181**	**36,181**
Share in fair value of net assets acquired (70%)	25,327	
Recognized Core Deposit Intangible	843	
Goodwill arising on acquisition	23,394	
Consideration given	**49,564**	

The net cash outflow on acquisition was as follows:

	2008
Cash paid	49,564
Cash acquired with the subsidiary	(8,908)
Net cash outflow	**40,656**

If the combination had taken place at the beginning of the year, the net income of the Group would have been GEL 1,887 and the total revenue would have been GEL 367,820.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill was the positive synergy brought into the Group's operations.

At the acquisition date, non-controlling interest comprised GEL 10,854 and was measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2008 (continued)

JSC Kutaisi St. Nickolas Surgery Clinic

On 31 May 2008 JSC Insurance Company Aldagi BCI, a fully owned subsidiary of the Bank, acquired 55% of JSC "Kutaisi St. Nickolas Surgery Clinic". The fair values of identifiable assets, liabilities and contingent liabilities of JSC "Kutaisi St. Nickolas Surgery Clinic" as of the date of acquisition were estimated at:

	Fair value recognized on acquisition	*Carrying value*
Cash and cash equivalents	7	7
Property and equipment	2,802	2,802
All other assets	223	223
	3,032	**3,032**
Amounts due to credit institutions	457	457
All other liabilities	791	791
	1,248	**1,248**
Fair value of net assets	**1,784**	**1,784**
Share in fair value of net assets acquired (55%)	981	
Goodwill arising on acquisition	288	
Consideration given	**1,269**	

The net cash outflow on acquisition was as follows:

	2008
Cash paid	1,091
Cash acquired with the subsidiary	(7)
Net cash outflow	**1,084**

If the combination had taken place at the beginning of the year, there would be no major, material difference in the net income and revenue of the Group.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill was the positive synergy brought into the Group's operations.

At the acquisition date, non-controlling interest comprised GEL 803 and was measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The total amount of goodwill is expected to be deductible for tax purposes upon disposal of the subsidiary.

(Thousands of Georgian Lari)

6. Segment Information

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

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

Corporate Banking (excluding Corporate Banking of BG Bank and BNB) - Principally providing loans and other credit facilities to large VIP as well as other legal entities, larger than SME and Micro, finance lease facilities provided by Georgian Leasing Company LLC, as well as providing funds transfers and settlement services, trade finance services and documentary operations support, handling saving and term deposits for corporate and institutional customers.

Wealth Management - Principally providing private banking services to resident as well as non-resident wealthy individuals as well as their direct family members by ensuring individually distinguished approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or holding their savings and term deposits; Wealth Management involves providing wealth and asset management services to same individuals through different investment opportunities and specifically designed investment products.

Corporate Centre - Principally providing back office services to all operating segments of the Bank as well as holding all principal investments in subsidiaries.

Insurance & Healthcare - Principally providing wide-scale non-life insurance as well as integrated healthcare services to corporate clients and insured individuals.

Affordable Housing (formerly included in Asset Management) - Comprising JSC SB Real Estate, principally holding investment property repossessed by the Bank from defaulted borrowers, managing those property, developing and selling affordable residential apartments.

BG Capital (formerly named Brokerage) - Principally providing brokerage, custody and corporate finance services, mostly to wealthy or mass affluent individuals as well as to corporate customers.

BNB & BGB - Comprising JSC Belarusky Narodny Bank and JSC BG Bank (disposed of in February 2011), principally providing retail and corporate banking services in Belarus and Ukraine.

Liberty Consumer (formerly included in Asset Management) - Principally holding private equity investments in several non-core business enterprises, such as winery, fitness centre, travel agencies, outdoor or indoor advertising company, regional car dealership, hotels and restaurants management chain and other smaller investments, all designated for disposal.

Other (formerly included in Corporate Centre) - Comprising JSC Galt & Taggart Holding Georgia, a shell company, principally holding investments in subsidiaries of the Bank on behalf of the Bank.

For purposes of further consolidation of these operating segments and for more comprehensive presentation in these consolidated financial statements Management has further grouped them into large segments, classified as: Strategic, Synergistic and Non-Core.

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

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

Since 2010 the Group changed its estimates in respect of the allocation of indirect revenues and indirect expenses in JSC Bank of Georgia (stand-alone) among corporate banking, retail banking and wealth management. These changes in allocation estimates had no impact on subsidiaries. Instead, it only resulted in re-allocation of certain indirect revenues and indirect expenses in JSC Bank of Georgia stand-alone segment reporting, with no consequence on totals of segments across each line.

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as at and for the six months ended 30 June 2011:

	Strategic				*Synergistic*			*Non-Core*				
	Corporate banking	***Retail banking***	***Wealth management***	***Corporate center***	***Insurance & Healthcare***	***Affordable Housing***	***BG Capital***	***BNB & BGB****	***Liberty Consumer***	***Other***	***Inter – company eliminations***	***Total***
Revenue												
External operating income:												
Net interest income (expense)	37,335	66,914	2,648	–	593	–	86	6,426	(636)	–	–	113,366
Net fees and commission income	9,210	22,520	305	–	33	–	1,493	409	–	–	–	33,970
Net gains (losses) from foreign currencies	21,527	12,332	375	–	(592)	47	(121)	10,030	(187)	–	–	43,411
Other external (expenses) revenues	(3,371)	(3,919)	(86)	–	13,610	698	338	13,889	3,923	–	–	25,082
Operating income(expense) from other segments	4,957	727	–	–	(257)	233	142	(206)	–	(90)	(5,506)	–
Revenue	**69,658**	**98,574**	**3,242**	**–**	**13,387**	**978**	**1,938**	**30,548**	**3,100**	**(90)**	**(5,506)**	**215,829**
Impairment charge (reversal) on interest earning assets	13,160	(4,516)	(732)	–	–	–	–	3,617	–	–	(27)	11,502
Results												
Profit (loss) before income tax expense from continuing operations	**34,792**	**53,401**	**2,114**	**(13,000)**	**2,829**	**316**	**(679)**	**6,079**	**(2,871)**	**(90)**	**27**	**82,918**
Income tax expense												(6,926)
Net loss from discontinued operations												(12,247)
Profit for the period												**63,745**
Assets and liabilities												
Segment assets	2,025,563	1,852,594	27,899	13,577	95,148	37,511	23,072	134,853	41,662	–	(149,529)	4,102,350
Unallocated assets												20,974
Total assets												**4,123,324**
Segment liabilities	1,673,997	1,288,317	304,374	–	70,611	9,055	47,105	91,487	12,163	–	(149,529)	3,347,580
Unallocated liabilities												23,983
Total liabilities												**3,371,563**
Other segment information												
Property, plant and equipment	9,167	15,390	289	–	4,381	2,639	32	721	697	–	–	33,316
Intangible assets	1,842	3,103	58	–	9	14	12	115	2	–	–	5,155
Capital expenditures	**11,009**	**18,493**	**347**	**–**	**4,390**	**2,653**	**44**	**836**	**699**	**–**	**–**	**38,471**
Depreciation	3,522	6,283	110	–	361	25	73	347	508	–	–	11,229
Amortization	509	1,099	16	–	14	–	8	66	–	–	–	1,712
Impairment	–	–	–	13,000	–	–	–	–	–	–	–	13,000
Investments in associates	–	–	–	–	–	–	–	–	3,758	–	–	3,758
Share of loss of associates	–	–	–	–	–	–	–	–	(251)	–	–	(251)

**** JSC Belarusky Narodny Bank (BNB) and JSC BG BANK (BGB).***

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments for the six months ended 30 June 2010 (unaudited) and as at 31 December 2010:

	Strategic				*Synergistic*			*Non-Core*				
	Corporate banking	*Retail banking*	*Wealth management*	*Corporate center*	*Insurance & Healthcare*	*Affordable Housing*	*BG Capital*	*BNB & BGB**	*Liberty Consumer*	*Other*	*Inter – company eliminations*	*Total*
Revenue												
External operating income:												
Net interest income (expense)	35,742	52,212	1,372	–	305	(11)	249	10,994	(14)	–	–	100,849
Net fees and commission income (expense)	7,196	18,692	202	–	152	(367)	148	1,266	3	–	–	27,292
Net gains (losses) from foreign currencies	10,378	3,716	442	–	615	37	220	667	103	–	–	16,178
Other external (expenses) revenues	(149)	(1,311)	14	–	9,327	2,024	2,363	214	4,075	–	–	16,557
Operating income (expense) from other segments	5,742	239	–	–	150	(1,801)	(350)	178	(458)	832	(4,532)	–
Revenue	**58,909**	**73,548**	**2,030**	**–**	**10,549**	**(118)**	**2,630**	**13,319**	**3,709**	**832**	**(4,532)**	**160,876**
Impairment charge (reversal) on interest earning assets	3,051	21,210	(2,507)	–	–	–	–	865	–	–	667	23,286
Results												
Profit (loss) before income tax expense	**35,804**	**4,977**	**2,605**	**–**	**2,270**	**(3,926)**	**1,394**	**(455)**	**(200)**	**832**	**(667)**	**42,634**
Income tax expense												(6,289)
Profit for the period												**36,345**
Assets and liabilities												
Segment assets	1,745,431	1,746,185	43,083	28,265	83,380	28,448	20,013	342,353	44,765	–	(97,426)	3,984,497
Unallocated assets												20,425
Total assets												**4,004,922**
Segment liabilities	1,552,368	1,176,859	261,638	–	61,542	3,193	41,435	264,069	12,751	–	(97,426)	3,276,429
Unallocated liabilities												35,152
Total liabilities												**3,311,581**
Other segment information												
Property, plant and equipment	4,693	4,862	167	–	2,151	168	142	6,710	2,101	–	–	20,994
Intangible assets	1,749	1,757	62	–	25	7	3	204	3,404	–	–	7,211
Capital expenditures	**6,442**	**6,619**	**229**	**–**	**2,176**	**175**	**145**	**6,914**	**5,505**	**–**	**–**	**28,205**
Depreciation	5,037	4,990	179	–	304	101	58	595	436	–	–	11,700
Amortization	660	877	24	–	14	–	9	29	1	–	–	1,614
Investments in associates	–	–	–	–	–	–	–	–	5,632	–	–	5,632
Share of loss of associates	–	–	–	–	–	–	–	–	–	–	–	–

**** JSC Belarusky Narodny Bank (BNB) and JSC BG BANK (BGB).***

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2010:

	Strategic				*Synergistic*			*Non-Core*				
	Corporate banking	***Retail banking***	***Wealth management***	***Corporate center***	***Insurance & Healthcare***	***Affordable Housing***	***BG Capital***	***BNB & BGB****	***Liberty Consumer***	***Other***	***Inter – company eliminations***	***Total***
Revenue												
External operating income:												
Net interest income (expense)	74,756	116,378	3,053	–	700	27	270	21,684	(524)	–	–	216,344
Net fees and commission income	16,604	42,141	499	–	86	–	1,164	2,926	–	–	–	63,420
Net gains (losses) from foreign currencies	21,387	9,211	642	–	267	30	52	2,252	(92)	–	–	33,749
Other external (expenses) revenues	(2,130)	1,184	(53)	–	19,465	2,257	3,009	749	8,639	–	–	33,120
Operating income(expense) from other segments	12,484	527	–	–	380	(1,371)	(231)	(426)	(536)	154	(10,981)	–
Revenue	**123,101**	**169,441**	**4,141**	**–**	**20,898**	**943**	**4,264**	**27,185**	**7,487**	**154**	**(10,981)**	**346,633**
Impairment charge (reversal) on interest earning assets	12,801	29,073	(2,632)	–	–	–	–	4,096	–	–	773	44,111
Results												
Profit (loss) before income tax expense	**68,740**	**39,952**	**2,028**	**–**	**5,568**	**(3,747)**	**(4,838)**	**(3,605)**	**(4,964)**	**82**	**(773)**	**98,443**
Income tax expense												(15,776)
Profit for the period												**82,667**
Assets and liabilities												
Segment assets	1,745,431	1,746,185	43,083	28,265	83,380	28,448	20,013	342,353	44,765	–	(97,426)	3,984,497
Unallocated assets												20,425
Total assets												**4,004,922**
Segment liabilities	1,552,368	1,176,859	261,638	–	61,542	3,193	41,435	264,069	12,751	–	(97,426)	3,276,429
Unallocated liabilities												35,152
Total liabilities												**3,311,581**
Other segment information												
Property, plant and equipment	6,157	19,006	482	–	3,290	34	144	6,743	578	–	–	36,434
Intangible assets	1,347	3,540	85	–	39	6	3	355	3,473	–	–	8,848
Capital expenditures	**7,504**	**22,546**	**567**	–	**3,329**	**40**	**147**	**7,098**	**4,051**	**–**	**–**	**45,282**
Depreciation	4,980	16,107	402	–	634	125	163	1,190	909	–	–	24,510
Amortization	629	2,401	50	–	29	–	29	305	10	–	–	3,453
Impairment	318	108	9	–	–	–	–	–	–	–	–	435
Investments in associates	–	–	–	–	–	–	–	–	5,632	–	–	5,632
Share of loss of associates	–	–	–	–	–	–	–	–	255	–	–	255

***** ***JSC Belarusky Narodny Bank (BNB) and JSC BG BANK (BGB).***

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2009:

	Strategic				*Synergistic*			*Non-Core*				
	Corporate banking	*Retail banking*	*Wealth management*	*Corporate center*	*Insurance & Healthcare*	*Affordable Housing*	*BG Capital*	*BNB & BGB**	*Liberty Consumer*	*Other*	*Inter – company eliminations*	*Total*
Revenue												
External operating income:												
Net interest income (expense)	48,844	117,679	2,340	–	(36)	(188)	333	21,612	(43)	–	–	190,541
Net fees and commission income	13,095	34,895	342	–	1,006	–	2,305	3,382	–	–	–	55,025
Net gains (losses) from foreign currencies	13,886	9,706	718	–	61	(413)	808	4,307	10	–	–	29,083
Other external (expenses) revenues	8,599	125	337	–	17,346	(12,869)	3,336	1,120	2,248	–	–	20,242
Operating income (expense) from other segments	11,327	138	–	–	947	(1,214)	370	(1,261)	(2,620)	(403)	(7,284)	–
Revenue	**95,751**	**162,543**	**3,737**	**–**	**19,324**	**(14,684)**	**7,152**	**29,160**	**(405)**	**(403)**	**(7,284)**	**294,891**
Impairment charge (reversal) on interest earning assets	12,667	69,598	3,626	–	–	–	–	41,277	–	–	(1,427)	125,741
Results												
Profit (loss) before income tax benefit	**36,847**	**5,229**	**(4,677)**	**(68,550)**	**2,969**	**(26,918)**	**(1,788)**	**(43,527)**	**(6,914)**	**(4)**	**1,427**	**(105,906)**
Income tax benefit												6,998
Loss for the period												**(98,908)**
Assets and liabilities												
Segment assets	1,184,586	1,313,041	49,467	28,265	70,618	49,510	14,446	273,670	31,178	15	(124,851)	2,889,945
Unallocated assets												23,484
Total assets												**2,913,429**
Segment liabilities	995,144	939,268	163,067	–	54,034	36,130	36,719	187,570	2,696	–	(124,851)	2,289,777
Unallocated liabilities												25,235
Total liabilities												**2,315,012**
Other segment information												
Property, plant and equipment	10,017	8,681	500	–	960	10	312	2,713	234	–	–	23,427
Intangible assets	2,349	1,406	82	–	22	4,650	49	587	371	–	–	9,516
Capital expenditures, of which:	**12,366**	**10,087**	**582**	**–**	**982**	**4,660**	**361**	**3,300**	**605**	**–**	**–**	**32,943**
Depreciation	10,469	9,028	520	–	555	289	63	1,211	381	–	–	22,516
Amortization	1,619	1,000	58	–	19	–	20	194	2	–	–	2,912
Impairment	–	–	–	68,381	–	4,650	–	3,200	41	–	–	76,272
Investments in associates	–	–	–	–	–	–	–	–	10,323	–	–	10,323
Share of loss of associates	–	–	–	–	–	–	–	–	(2,649)	–	–	(2,649)

**** JSC Belarusky Narodny Bank (BNB) and JSC BG BANK (BGB).***

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2008:

	Strategic				*Synergistic*			*Non-Core*				
	Corporate banking	*Retail banking*	*Wealth management*	*Corporate center*	*Insurance & Healthcare*	*Affordable Housing*	*BG Capital*	*BNB & BGB**	*Liberty Consumer*	*Other*	*Inter – company eliminations*	*Total*
Revenue												
External operating income:												
Net interest income (expense)	60,797	131,940	2,977	–	(149)	93	230	25,005	(53)	–	–	220,840
Net fees and commission income (expense)	12,004	32,036	519	–	(5,338)	–	5,992	4,608	148	–	–	49,969
Net gains from foreign currencies	17,557	17,750	1,554	–	–	49	1,044	8,461	719	–	–	47,134
Other external (expenses) revenues	1,646	6,561	24	–	11,390	502	(4,151)	200	2,268	–	–	18,440
Operating income (expense) from other segments	4,588	2,533	–	–	521	(30)	123	(2,187)	(462)	–	(5,086)	–
Revenue	**96,592**	**190,820**	**5,074**	**–**	**6,424**	**614**	**3,238**	**36,087**	**2,620**	**–**	**(5,086)**	**336,383**
Impairment charge (reversal) on interest earning assets	51,695	57,988	1,500	–	–	–	–	18,611	–	–	(5,647)	124,147
Results												
Profit (loss) before income tax benefit	**1,058**	**26,058**	**126**	**–**	**(6,951)**	**(2,190)**	**(7,049)**	**(11,572)**	**(5,931)**	**–**	**5,647**	**(804)**
Income tax benefit												978
Profit for the period												**174**
Assets and liabilities												
Segment assets	1,194,695	1,497,282	58,406	96,646	78,099	7,026	31,886	321,692	98,706	3	(138,320)	3,246,121
Unallocated assets												12,786
Total assets												**3,258,907**
Segment liabilities	1,118,243	1,102,461	98,574	–	67,560	1,936	25,747	214,489	24,974	–	(138,320)	2,515,664
Unallocated liabilities												24,394
Total liabilities												**2,540,058**
Other segment information												
Property, plant and equipment	47,990	41,347	2,883	–	2,834	820	130	8,654	5,226	–	–	109,884
Intangible assets	5,551	7,000	334	–	8	6	37	55	6	–	–	12,997
Capital expenditures	**53,541**	**48,347**	**3,217**	**–**	**2,842**	**826**	**167**	**8,709**	**5,232**	**–**	**–**	**122,881**
Depreciation	7,223	8,884	430	–	409	189	76	966	493	–	–	18,670
Amortization	376	931	23	–	30	–	20	236	2	–	–	1,618
Impairment	–	–	–	–	–	–	–	244	–	–	–	244
Investments in associates	–	–	–	–	–	–	–	–	16,716	–	–	16,716
Share of loss of associates	–	–	–	–	–	–	–	–	(713)	–	–	(713)

**** JSC Belarusky Narodny Bank (BNB) and JSC BG BANK (BGB).***

(Thousands of Georgian Lari)

6. Segment Information (continued)

Geographic information

The Group operates in three main geographical markets: (a) Georgia, (b) Ukraine and Cyprus and (c) Belarus. The following table shows the distribution of the Group's external income and capital expenditure, for the six months ended 30 June 2011 and total assets as at 30 June 2011, allocated based on the location of the Group's assets:

	Georgia 30 June 2011	*Ukraine and Cyprus 30 June 2011*	*Belarus 30 June 2011*	*Total 30 June 2011*
External income				
Net interest income	106,945	447	5,974	113,366
Net fee and commission income	32,514	1,188	268	33,970
Net foreign currency gains (losses)	46,465	85	(3,139)	43,411
Other non-interest (loss) income	(2,523)	664	26,941	25,082
Total external income	**183,401**	**2,384**	**30,044**	**215,829**
Total assets	**3,963,387**	**25,082**	**134,855**	**4,123,324**
Capital expenditures	**37,594**	**41**	**836**	**38,471**

The following table shows the distribution of the Group's external income and capital expenditure, for the six months ended 30 June 2010 (unaudited) and total assets as at 31 December 2010, allocated based on the location of the Group's assets:

	Georgia 30 June 2010	*Ukraine and Cyprus 30 June 2010*	*Belarus 30 June 2010*	*Total 30 June 2010*
External income				
Net interest income	89,834	6,488	4,527	100,849
Net fee and commission income	25,519	1,120	653	27,292
Net foreign currency gains	15,507	121	550	16,178
Other non-interest income	13,708	2,702	147	16,557
Total external income	**144,568**	**10,431**	**5,877**	**160,876**
Total assets	**3,664,312**	**235,582**	**105,028**	**4,004,922**
Capital expenditures	**22,682**	**5,128**	**395**	**28,205**

The following table shows the distribution of the Group's external income, total assets and capital expenditure allocated based on the location of the Group's assets, as at and for the year ended 31 December 2010:

	Georgia 31 December 2010	*Ukraine and Cyprus 31 December 2010*	*Belarus 31 December 2010*	*Total 31 December 2010*
External income				
Net interest income	196,356	9,800	10,188	216,344
Net fee and commission income	58,629	3,133	1,658	63,420
Net foreign currency gains	29,438	2,817	1,494	33,749
Other non-interest income	29,842	2,020	1,258	33,120
Total external income	**314,265**	**17,770**	**14,598**	**346,633**
Total assets	**3,664,312**	**235,582**	**105,028**	**4,004,922**
Capital expenditures	**38,115**	**5,420**	**1,747**	**45,282**

(Thousands of Georgian Lari)

6. Segment Information (continued)

Geographic information (continued)

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

	Georgia 31 December 2009	*Ukraine and Cyprus 31 December 2009*	*Belarus 31 December 2009*	*Total 31 December 2009*
External income				
Net interest income	169,167	16,417	4,957	190,541
Net fee and commission income	50,132	3,404	1,489	55,025
Net foreign currency gains	23,977	3,480	1,626	29,083
Other non-interest income	14,722	5,094	426	20,242
Total external income	**257,998**	**28,395**	**8,498**	**294,891**
Total assets	**2,600,684**	**232,730**	**80,015**	**2,913,429**
Capital expenditures	**29,338**	**3,214**	**391**	**32,943**

The following table shows the distribution of the Group's external income, total assets and capital expenditure allocated based on the location of the Group's assets, as at and for the year ended 31 December 2008:

	Georgia 31 December 2008	*Ukraine and Cyprus 31 December 2008*	*Belarus 31 December 2008*	*Total 31 December 2008*
External income				
Net interest income	195,842	22,580	2,418	220,840
Net fee and commission income	43,134	6,022	813	49,969
Net foreign currency gains	43,347	2,257	1,530	47,134
Other non-interest income	17,406	867	167	18,440
Total external income	**299,729**	**31,726**	**4,928**	**336,383**
Total assets	**2,964,376**	**221,107**	**73,424**	**3,258,907**
Capital expenditures	**114,077**	**8,184**	**620**	**122,881**

Amounts of non-current assets, other than financial instruments, concentrated in foreign locations (outside Georgia) are immaterial compared to total assets of the Group.

7. Cash and Cash Equivalents

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Cash on hand	103,519	161,749	154,861	164,463
Current accounts with central banks, excluding obligatory reserves	81,224	58,958	44,101	43,961
Current accounts with other credit institutions	88,420	161,290	34,944	44,080
Time deposits with credit institutions up to 90 days	65,245	229,587	123,983	163,317
Cash and cash equivalents	**338,408**	**611,584**	**357,889**	**415,821**

As at 30 June 2011 GEL 104,538 (2010: GEL 367,956, 2009: GEL 127,816, 2008: GEL 222,332) was placed on current and time deposit accounts with internationally recognized OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 2.85% interest per annum on these deposits (2010: 1.74%, 2009: 0.17%, 2008: 1.16%).

(Thousands of Georgian Lari)

8. Amounts Due from Credit Institutions

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Obligatory reserves with central banks	287,554	90,378	41,791	39,661
Time deposits with effective maturity of more than 90 days	15,405	20,809	18,599	37,414
Inter-bank loan receivables	5,108	5,282	4,230	4,328
Amounts due from credit institutions	**308,067**	**116,469**	**64,620**	**81,403**

Obligatory reserves with central banks represent amounts deposited with the NBG ("National Bank of Georgia"), the NBU ("National Bank of Ukraine") and the NBRB (National Bank of the Republic of Belarus). Credit institutions are required to maintain an interest-earning cash deposit (obligatory reserve) with central banks, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the statutory legislature. The Group earned up to 3.875% annual interest on Lari denominated and 1% on Euro denominated obligatory reserves with NBG for the six months ended 30 June 2011 and 2010. The Group earned up to 2% annual interest on obligatory reserve with NBG in 2009 and 2008.

As at 30 June 2011 GEL 583 (2010: GEL 14,538, 2009: GEL 10,940, 2008: GEL 3,913) was placed on current accounts and inter-bank time deposits with one (2010: three, 2009: seven, 2008: three) internationally recognised OECD banks. Those amounts were pledged to the counterparty bank as security for open commitments.

As at 30 June 2011 inter-bank loan receivables include GEL 4,166 (2010: GEL 4,436, 2009: GEL 4,215, 2008: GEL 4,328) placed with an Azerbaijani bank.

9. Loans to Customers

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Commercial loans	1,362,854	1,424,550	939,814	1,044,959
Consumer loans	428,596	383,615	332,537	496,197
Residential mortgage loans	358,049	409,786	387,415	391,606
Micro and SME loans	273,359	238,462	99,981	151,313
Gold – pawn loans	73,703	66,749	62,829	46,374
Others	247	4,071	5,241	15,174
Loans to customers, gross	**2,496,808**	**2,527,233**	**1,827,817**	**2,145,623**
Less – Allowance for loan impairment	(121,698)	(175,536)	(166,486)	(106,601)
Loans to customers, net	**2,375,110**	**2,351,697**	**1,661,331**	**2,039,022**

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Allowance for loan impairment

Movements of the allowance for impairment of loans to customers by class are as follows:

	Commercial loans 2011	*Consumer loans 2011*	*Residential mortgage loans 2011*	*Micro loans 2011*	*Others 2011*	*Total 2011*
At 1 January	**114,499**	**31,873**	**22,424**	**5,951**	**789**	**175,536**
Charge (reversal)	14,274	(4,397)	2,251	(770)	(27)	11,331
Recoveries	1,149	8,278	2,838	1,486	–	13,751
Write-offs	(3,041)	(10,390)	(4,859)	(1,042)	–	(19,332)
Disposal of subsidiary	(43,593)	–	(11,714)	(65)	(803)	(56,175)
Interest accrued on impaired loans	(225)	(838)	(792)	(174)	–	(2,029)
Currency translation difference	(1,775)	18	329	3	41	(1,384)
At 30 June	**81,288**	**24,544**	**10,477**	**5,389**	–	**121,698**
Individual impairment	74,635	6,574	5,686	2,255	–	89,150
Collective impairment	6,653	17,970	4,791	3,134	–	32,548
	81,288	**24,544**	**10,477**	**5,389**	**–**	**121,698**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**271,735**	**13,001**	**28,491**	**7,960**	**–**	**321,187**

	Commercial loans 2010	*Consumer loans 2010*	*Residential mortgage loans 2010*	*Micro loans 2010*	*Others 2010*	*Total 2010*
At 1 January	**82,042**	**54,989**	**23,490**	**3,788**	**2,177**	**166,486**
Charge (reversal)	4,510	6,037	12,649	777	(95)	23,878
Recoveries	9,058	5,141	457	622	–	15,278
Write-offs	(1,358)	(2,844)	(10,751)	(278)	–	(15,231)
Interest accrued on impaired loans	(911)	(1,025)	(1,952)	(119)	–	(4,007)
Currency translation difference	4,886	83	741	23	187	5,920
At 30 June (unaudited)	**98,227**	**62,381**	**24,634**	**4,813**	**2,269**	**192,324**
Individual impairment	52,716	50,717	17,781	2,468	1,853	125,535
Collective impairment	45,511	11,664	6,853	2,345	416	66,789
	98,227	**62,381**	**24,634**	**4,813**	**2,269**	**192,324**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**243,278**	**61,191**	**59,183**	**7,658**	**2,082**	**373,392**

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Allowance for loan impairment (continued)

	Commercial loans 2010	Consumer loans 2010	Residential mortgage loans 2010	Micro loans 2010	Others 2010	Total 2010
At 1 January 2010	**82,042**	**54,989**	**23,490**	**3,788**	**2,177**	**166,486**
Charge	23,932	7,571	18,440	1,474	(1,531)	49,886
Recoveries	21,090	15,208	3,249	3,150	42	42,739
Write-offs	(13,074)	(42,798)	(19,441)	(2,138)	–	(77,451)
Interest accrued on impaired loans	(1,392)	(3,306)	(3,681)	(360)	–	(8,739)
Currency translation difference	1,901	209	367	37	101	2,615
At 31 December 2010	**114,499**	**31,873**	**22,424**	**5,951**	**789**	**175,536**
Individual impairment	68,145	13,148	16,606	2,433	315	100,647
Collective impairment	46,354	18,725	5,818	3,518	474	74,889
	114,499	**31,873**	**22,424**	**5,951**	**789**	**175,536**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**192,778**	**21,996**	**51,585**	**9,051**	**973**	**276,383**

	Commercial loans 2009	Consumer loans 2009	Residential mortgage loans 2009	Micro loans 2009	Gold-pawn loans 2009	Others 2009	Total 2009
At 1 January 2009	**45,755**	**42,153**	**7,969**	**4,921**	**–**	**5,803**	**106,601**
Charge	44,357	52,839	19,023	5,981	8	(3,326)	118,882
Recoveries	17,839	8,469	2,170	2,016	–	11	30,505
Write-offs	(24,295)	(43,073)	(5,209)	(8,207)	(8)	(1)	(80,793)
Interest accrued on impaired loans	(1,088)	(5,216)	(396)	(891)	–	–	(7,591)
Currency translation difference	(526)	(183)	(67)	(32)	–	(310)	(1,118)
At 31 December 2009	**82,042**	**54,989**	**23,490**	**3,788**	**–**	**2,177**	**166,486**
Individual impairment	75,684	42,824	20,479	1,907	–	–	140,894
Collective impairment	6,358	12,165	3,011	1,881	–	2,177	25,592
	82,042	**54,989**	**23,490**	**3,788**	**–**	**2,177**	**166,486**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**351,835**	**67,345**	**84,448**	**6,731**	**–**	**2,037**	**512,396**

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Allowance for loan impairment (continued)

	Commercial loans 2008	*Consumer loans 2008*	*Residential mortgage loans 2008*	*Micro loans 2008*	*Others 2008*	*Total 2008*
At 1 January 2008	**11,120**	**13,158**	**2,757**	**1,676**	**218**	**28,929**
Charge	53,349	50,190	7,164	5,415	6,694	122,812
Recoveries	3,265	5,088	1,327	1,496	–	11,176
Write-offs	(17,685)	(22,082)	(2,724)	(3,221)	–	(45,712)
Interest accrued on impaired loans	(3,067)	(3,730)	(199)	(333)	–	(7,329)
Currency translation difference	(1,227)	(471)	(356)	(112)	(1,109)	(3,275)
At 31 December 2008	**45,755**	**42,153**	**7,969**	**4,921**	**5,803**	**106,601**
Individual impairment	37,905	25,920	5,068	3,071	650	72,614
Collective impairment	7,850	16,233	2,901	1,850	5,153	33,987
	45,755	**42,153**	**7,969**	**4,921**	**5,803**	**106,601**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**290,561**	**42,338**	**35,280**	**8,505**	**857**	**377,541**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized as at 30 June 2011 comprised GEL 17,787 (2010: GEL 18,640, 2009: GEL 17,055, 2008: GEL 10,241).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory trade receivables and third party corporate guarantees.
- For retail lending, mortgages over residential properties, cars, gold and jewellery and third party corporate guarantees.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Concentration of loans to customers

As at 30 June 2011 concentration of loans granted by the Group to ten largest third party borrowers comprised GEL 383,657 accounting for 15% of gross loan portfolio of the Group (2010: GEL 383,971 and 15% respectively, 2009: GEL 206,981 and 11% respectively, 2008: GEL 230,733 and 11% respectively). An allowance of GEL 8,079 (2010: GEL 3,837, 2009: GEL 9,891, 2008: GEL 10,224) was established against these loans.

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Concentration of loans to customers (continued)

As at 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008 loans are principally issued within Georgia, and their distribution by industry sector is as follows:

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Individuals	1,010,565	1,006,046	862,365	1,079,945
Trade and services	867,454	858,878	578,623	667,557
Construction and development	274,659	274,623	150,676	158,702
Mining	123,198	137,583	62,622	34,526
Transport and communication	90,149	77,792	81,532	52,631
Energy	58,360	62,424	11,667	66,145
Agriculture	10,959	18,089	13,730	20,134
Others	61,464	91,798	66,602	65,983
Loans to customers, gross	**2,496,808**	**2,527,233**	**1,827,817**	**2,145,623**
Less – allowance for loan impairment	(121,698)	(175,536)	(166,486)	(106,601)
Loans to customers, net	**2,375,110**	**2,351,697**	**1,661,331**	**2,039,022**

Loans have been extended to the following types of customers:

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Private companies	1,450,557	1,488,577	934,494	1,029,008
Individuals	1,010,565	1,006,046	862,365	1,079,945
State-owned entities	35,686	32,610	30,958	36,670
Loans to customers, gross	**2,496,808**	**2,527,233**	**1,827,817**	**2,145,623**
Less – allowance for loan impairment	(121,698)	(175,536)	(166,486)	(106,601)
Loans to customers, net	**2,375,110**	**2,351,697**	**1,661,331**	**2,039,022**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the six months ended 30 June 2011 and six months ended 30 June 2010 (unaudited):

	Six months ended 30 June 2011			*Six months ended 30 June 2010*		
	Individual impairment	*Collective impairment*	*Total*	*Individual impairment*	*Collective impairment*	*Total*
	2011	*2011*	*2011*	*2010*	*2010*	*2010*
At 1 January	**100,647**	**74,889**	**175,536**	**140,894**	**25,592**	**166,486**
Charge (reversal)	17,115	(5,784)	11,331	(6,641)	30,519	23,878
Recoveries	7,583	6,168	13,751	4,464	10,814	15,278
Write-offs	(17,499)	(1,833)	(19,332)	(13,014)	(2,217)	(15,231)
Disposal of subsidiary	(16,112)	(40,063)	(56,175)	–	–	–
Interest accrued on impairment loans to customers	(1,815)	(214)	(2,029)	(3,746)	(261)	(4,007)
Currency translation differences	(769)	(615)	(1,384)	3,578	2,342	5,920
At 30 June	**89,150**	**32,548**	**121,698**	**125,535**	**66,789**	**192,324**

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the years ended 31 December 2010, 31 December 2009 and 31 December 2008:

	2010			*2009*			*2008*		
	Individual impairment 2010	*Collective impairment 2010*	*Total 2010*	*Individual impairment 2009*	*Collective impairment 2009*	*Total 2009*	*Individual impairment 2008*	*Collective impairment 2008*	*Total 2008*
At 1 January	**140,894**	**25,592**	**166,486**	**72,614**	**33,987**	**106,601**	**9,659**	**19,270**	**28,929**
Charge (reversal) for the year	(8,950)	58,836	49,886	105,477	13,405	118,882	73,311	49,501	122,812
Recoveries	25,247	17,492	42,739	17,237	13,268	30,505	6,690	4,486	11,176
Write-offs	(54,534)	(22,917)	(77,451)	(49,587)	(31,206)	(80,793)	(12,757)	(32,955)	(45,712)
Interest accrued on impairment loans to customers	(7,216)	(1,523)	(8,739)	(3,801)	(3,790)	(7,591)	(1,933)	(5,396)	(7,329)
Currency translation differences	5,206	(2,591)	2,615	(1,046)	(72)	(1,118)	(2,356)	(919)	(3,275)
At 31 December	**100,647**	**74,889**	**175,536**	**140,894**	**25,592**	**166,486**	**72,614**	**33,987**	**106,601**

10. Finance Lease Receivables

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Minimum lease payments receivables	85,819	18,521	27,816	50,565
Less – Unearned finance lease income	(20,399)	(3,514)	(3,776)	(6,797)
	65,420	**15,007**	**24,040**	**43,768**
Less – Allowance for impairment	(629)	(588)	(7,144)	(2,163)
Finance lease receivables, net	**64,791**	**14,419**	**16,896**	**41,605**

The difference between the minimum lease payments to be received in the future and the finance lease receivables represents unearned finance income.

As at 30 June 2011, concentration of investments in five largest leases comprised GEL 53,451 or 82% of total finance lease receivables (2010: GEL 3,541 or 24%, 2009: GEL 16,013 or 67%, 2008: GEL 32,112 or 73%) and finance income received from them for the six months ended 30 June 2011 comprised GEL 548 or 32% of total finance income from lease (six months ended 30 June 2010: GEL 646 or 30%, year ended 31 December 2010: GEL 479 or 12%, year ended 31 December 2009: GEL 1,567 or 27%, year ended 31 December 2008: GEL 3,512 or 50%).

Future minimum lease payments to be received after 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008 are as follows:

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Within 1 year	18,089	10,266	19,693	37,550
From 1 to 5 years	42,149	8,255	8,123	13,015
More than 5 years	25,581	–	–	–
Minimum lease payment receivables	**85,819**	**18,521**	**27,816**	**50,565**

(Thousands of Georgian Lari)

10. Finance Lease Receivables (continued)

Minimum lease payments to be received after 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008 are denominated in the following currencies:

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
US Dollars	74,961	5,840	9,554	41,959
Euros	7,876	7,993	5,851	5,919
Belarusian Rubles	2,982	4,688	1,035	2,687
Ukrainian Hryvnias	–	–	11,376	–
Minimum lease payment receivables	**85,819**	**18,521**	**27,816**	**50,565**

The equipment the Group leases out at 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008 can be segregated into the following categories:

	30 June 2011		*31 December 2010*		*31 December 2009*		*31 December 2008*	
	Amount	*Number of projects*	*Amount*	*Number of projects*	*Amount*	*Number of projects*	*Amount*	*Number of projects*
Air and land transport	73,261	64	10,022	141	7,559	116	37,650	126
Machinery & equipment	8,406	95	4,356	38	3,885	31	3,930	46
Construction equipment	4,152	47	4,143	30	16,372	21	8,985	46
Minimum lease payment receivables	**85,819**	**206**	**18,521**	**209**	**27,816**	**168**	**50,565**	**218**

Movements of the allowance for impairment of finance lease receivables are as follows:

	Finance lease receivables 2011	*Finance lease receivables 2010 (Unaudited)*
At 1 January	**588**	**7,144**
Charge (reversal)	171	(592)
Recoveries	–	76
Amounts written-off	(100)	(1,795)
Currency translation difference	(30)	71
At 30 June	**629**	**4,904**
Individual impairment	102	4,889
Collective impairment	527	15
	629	**4,904**
Gross amount of lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	**253**	**7,057**

	Finance lease receivables 2010	*Finance lease receivables 2009*	*Finance lease receivables 2008*
At 1 January	**7,144**	**2,163**	**816**
(Reversal) Charge	(5,775)	6,859	1,335
Recoveries	–	2,074	–
Amounts written-off	(1,210)	(3,689)	–
Currency translation difference	429	(263)	12
At 31 December	**588**	**7,144**	**2,163**
Individual impairment	232	6,916	1,600
Collective impairment	356	228	563
	588	**7,144**	**2,163**
Gross amount of lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	–	**13,703**	**2,730**

(Thousands of Georgian Lari)

11. Investment Securities

Available-for-sale securities comprise:

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Certificates of deposit of central banks	188,300	104,969	–	–
Ministry of Finance treasury bonds	102,962	52,120	–	–
Ministry of Finance treasury bills	100,789	128,539	4,044	5,266
Corporate shares	12,266	11,294	13,418	21,723
Corporate bonds	–	–	2,946	6,748
	404,317	**296,922**	**20,408**	**33,737**
Less – Allowance for impairment (Note 17)	–	(1,982)	(818)	–
Available-for-sale securities	**404,317**	**294,940**	**19,590**	**33,737**

Corporate shares as at 30 June 2011 are primarily comprised of the remaining 19.4% investment in PJSC Bank Pershyi (formerly known as JSC BG Bank) of GEL 3,955 (2010, 2009, 2008: nil), investments in a chain of pharmacy stores of GEL 3,410 (2010: GEL 4,282, 2009: GEL 4,413, 2008: nil), a Georgian chain store retailer of GEL 3,146 (2010: GEL 3,146, 2009: GEL 2,677, 2008: GEL 9,175) and a real estate company of GEL 1,145 (2010: GEL 1,145, 2009, 2008: nil).

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

	30 June 2011		*31 December 2010*		*31 December 2009*		*31 December 2008*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Certificates of deposit of central banks	9.04	1	9.98	1	–	–	–	–
Ministry of Finance treasury bonds	14.43	1-2	15.32	1-2	–	–	–	–
Ministry of Finance treasury bills	11.08	1	10.03	1	9.50	1-2	11.95	1-3
Corporate bonds	–	–	–	–	19.76	1-2	14.41	1-3

Held-to-maturity securities comprise:

	30 June 2011		*31 December 2010*		*31 December 2009*		*31 December 2008*	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*	*Carrying value*	*Nominal value*	*Carrying value*	*Nominal value*
Corporate bonds	21	20	21	20	–	–	–	–
Certificates of deposit of central banks	–	–	–	–	105,143	105,624	14,826	15,000
Ministry of Finance treasury bills	–	–	–	–	144,053	149,124	–	–
State debt securities	–	–	–	–	–	–	8,019	8,047
Held-to-maturity securities	**21**	**20**	**21**	**20**	**249,196**	**254,748**	**22,845**	**23,047**

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

	30 June 2011		*31 December 2010*		*31 December 2009*		*31 December 2008*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Corporate Bonds	15.00	2012	10.00	2011	–	–	–	–
Certificates of deposit of central banks	–	–	–	–	3.11	2010	11.79	2009
Ministry of Finance treasury bills	–	–	–	–	6.33	2010	–	–
State debt securities	–	–	–	–	–	–	13.00	2009

(Thousands of Georgian Lari)

11. Investment Securities (continued)

Held-to-maturity securities comprise (continued):

During the second half of 2010, the Group sold part of investment securities classified as held-to-maturity. Following this transaction, the Group reclassified the remaining investments as available-for-sale, as prescribed by paragraph 52 of IAS 39. Information about the reclassified financial assets is presented in the table below:

	31 December 2010		
	Amortised cost	*Fair value*	*Fair value gain (loss) recognised in other comprehensive income*
Central banks' treasury bills	123,785	124,045	260
Certificates of deposit of central banks	104,982	104,969	(13)
Central banks' treasury bonds	51,542	52,120	578
Total reclassified	**280,309**	**281,134**	**825**

12. Investments in Associates

The following associates are accounted for under the equity method:

30 June 2011 Associates	***Ownership / Voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
JSC N Tour	30.00%	Georgia	1/11/2001	Travel services	29/05/2008
JSC Hotels and Restaurants Management Group – m/Group	25.00%	Georgia	30/05/2005	Food retail	29/05/2008
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
JSC Caucasus Automotive Retail	30.00%	Georgia	18/04/2008	Car retail	2/05/2008
Style +, LLC	32.45%	Georgia	1/08/2005	Advertising	7/08/2008

31 December 2010 Associates	***Ownership / Voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
JSC N Tour	30.00%	Georgia	1/11/2001	Travel services	29/05/2008
JSC Hotels and Restaurants Management Group – m/Group	25.00%	Georgia	30/05/2005	Food retail	29/05/2008
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
JSC Info Georgia XXI	50.00%	Georgia	26/04/2001	Business services	20/05/2008
JSC Caucasus Automotive Retail	36.14%	Georgia	18/04/2008	Car retail	2/05/2008
Style +, LLC	32.45%	Georgia	1/08/2005	Advertising	7/08/2008

31 December 2009 Associates	***Ownership / Voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
JSC N Tour	30.00%	Georgia	1/11/2001	Travel services	29/05/2008
JSC Hotels and Restaurants Management Group – m/Group	25.00%	Georgia	30/05/2005	Food retail	29/05/2008
JSC Teliani Valley	27.19%	Georgia	30/06/2000	Winery	13/02/2007
JSC iCall	27.03%	Georgia	22/03/2005	Call center	22/11/2006
JSC Info Georgia XXI	50.00%	Georgia	26/04/2001	Business services	20/05/2008
JSC Caucasus Automotive Retail	30.00%	Georgia	18/04/2008	Car retail	2/05/2008
Style +, LLC	32.45%	Georgia	1/08/2005	Advertising	7/08/2008

(Thousands of Georgian Lari)

12. Investments in Associates (continued)

31 December 2008 Associates	***Ownership / Voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
JSC SB Iberia	49.00%	Georgia	13/12/2007	Construction	20/03/2008
JSC SB Iberia 2	49.00%	Georgia	28/03/2008	Construction	
JSC Teliani Valley	27.19%	Georgia	30/06/2000	Winery	13/02/2007
JSC One Team	25.00%	Georgia	23/04/2007	Entertainment	
JSC iCall	27.03%	Georgia	22/03/2005	Call centre	22/11/2006
JSC N Tour	30.00%	Georgia	1/11/2001	Travel Services	29/05/2008
JSC Hotels and Restaurants Management Group – m/Group	50.00%	Georgia	30/05/2005	Food retail	29/05/2008
JSC Info Georgia XXI	50.00%	Georgia	26/04/2001	Business service	20/05/2008
JSC Caucasus Automotive Retail	30.00%	Georgia	18/04/2008	Car retail	2/05/2008
Style +, LLC	32.45%	Georgia	1/08/2005	Advertising	7/08/2008

Movements in investments in associates were as follows:

	2011	***2010*** *Unaudited*
Investments in associates, 1 January, gross	**7,870**	**12,834**
Write-off	(2,238)	(1,367)
Disposal	(1,623)	–
Transfers (reclassifications)	–	(5,582)
Net share of loss	(251)	–
Investments in associates, 30 June, gross	**3,758**	**5,885**
Less – Allowance for impairment (Note 17)	–	(507)
Investments in associates, 30 June, net	**3,758**	**5,378**

	2010	***2009***	***2008***
Investments in associates, beginning of year, gross	**12,834**	**16,990**	**5,208**
Purchase cost	–	–	13,355
Write-off	(1,768)	–	–
Disposal	–	(24)	(860)
Transfers (reclassifications)	(3,451)	(1,483)	–
Net share of (loss) profit	255	(2,649)	(713)
Investments in associates, end of year, gross	**7,870**	**12,834**	**16,990**
Less – Allowance for impairment (Note 17)	(2,238)	(2,511)	(274)
Investments in associates, end of year, net	**5,632**	**10,323**	**16,716**

Investments in associates at 30 June 2011 include goodwill of GEL 1,817 (2010: GEL 3,399, 2009: GEL 3,120, 2008: GEL 7,354). Write-off of GEL 2,238 comprise of GEL 1,149 investment in N Tour, GEL 581 investment in JSC Caucasus Automotive Retail and GEL 508 investment in Style +, LLC. Disposal of GEL 1,624 is the sale of JSC Info-Georgia XXI. Reclassification of GEL 3,451 in 2010 comprises investment in JSC Teliani Valley. Reclassifications of GEL 1,483 in 2009 comprise investments in SB Iberia and SB Iberia 2. Subsequent to acquisition of controlling stakes in these companies, the Group added previous investments of GEL 1,483 to total acquisition cost of these companies and this amount affected the respective price allocation, contributing to respective goodwill arising on these acquisitions.

(Thousands of Georgian Lari)

12. Investments in Associates (continued)

The following table summarises certain financial information of the associates:

Aggregated assets and liabilities of associates	***30 June 2011***	***31 December 2010***	***31 December 2009***	***31 December 2008***
Assets	15,066	16,610	33,861	58,171
Liabilities	(7,925)	(8,608)	(18,329)	(32,023)
Net assets	**7,141**	**8,002**	**15,532**	**26,148**

Aggregated revenue and profit of associates	***30 June 2011***	***31 December 2010***	***31 December 2009***	***31 December 2008***
Revenue	9,349	20,654	48,672	34,663
(Loss) profit	(674)	712	445	(1,607)

13. Investment Properties

	2011	***2010*** *Unaudited*
At 1 January	**113,496**	**79,509**
Additions*	2,305	16,868
Disposals	(400)	–
Disposals through sale of subsidiary	(13,654)	–
Net change in fair value through profit and loss	–	3,082
Transfers to property and equipment and other assets	(2,394)	–
At 30 June	**99,353**	**99,459**

*2011 *additions comprise foreclosed properties, no cash transactions were involved.*

	2010	***2009***	***2008***
At 1 January	**79,509**	**47,289**	**35,065**
Acquisition through business combinations (Note 5)	–	12,630	–
Additions*	35,146	495	12,613
Disposals	(5,490)	(755)	–
Net change in fair value through profit and loss	350	(4,087)	(389)
Transfers from property and equipment and other assets	3,981	23,937	–
At 31 December	**113,496**	**79,509**	**47,289**

**2010 additions comprise foreclosed properties, no cash transactions were involved.*

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

No significant changes of the value of investment properties took place during the six months ended 30 June 2011.

Rental income and direct operating expenses arising from investment properties comprise:

	30 June 2011	***30 June 2010*** *Unaudited*	***31 December 2010***	***31 December 2009***	***31 December 2008***
Rental income	1,371	1,375	2,750	3,026	1,211
Direct operating expenses	(86)	(68)	(136)	(114)	(76)

The entire amount of direct operating expenses participated in the generation of rental income during the respective periods.

(Thousands of Georgian Lari)

14. Property and Equipment

The movements in property and equipment during the six months ended 30 June 2011 were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2010	**150,516**	**100,559**	**42,183**	**8,341**	**7,530**	**42,766**	**351,895**
Additions	5,016	3,071	2,584	343	108	22,194	33,316
Disposals	(3,463)	(68)	(245)	(615)	(239)	(273)	(4,903)
Disposals through sale of subsidiaries	(5,735)	(1,876)	(1,192)	(649)	(175)	(751)	(10,378)
Transfers	130	–	–	–	317	(447)	–
Revaluation	4,978	–	–	–	–	–	4,978
Currency translation adjustment	(11,553)	(4,762)	(2,219)	(505)	(469)	(3,067)	(22,575)
30 June 2011	**139,889**	**96,924**	**41,111**	**6,915**	**7,072**	**60,422**	**352,333**
Accumulated impairment							
31 December 2010	**2,222**	**262**	**118**	**14**	**–**	**–**	**2,616**
Disposals through sale of subsidiaries	(1,316)	(253)	(49)	(12)	–	–	(1,630)
30 June 2011	**906**	**9**	**69**	**2**	**–**	**–**	**986**
Accumulated depreciation							
31 December 2010	**1,629**	**32,192**	**21,901**	**5,187**	**2,518**	**–**	**63,427**
Depreciation charge	1,267	5,635	2,877	851	599	–	11,229
Currency translation difference	(117)	(6)	(241)	(35)	(21)	–	(420)
Disposals	–	(15)	(188)	(521)	(197)	–	(921)
Disposals through sale of subsidiaries	(100)	(124)	(107)	(36)	(30)	–	(397)
30 June 2011	**2,679**	**37,682**	**24,242**	**5,446**	**2,869**	**–**	**72,918**
Net book value:							
31 December 2010	**146,665**	**68,105**	**20,164**	**3,140**	**5,012**	**42,766**	**285,852**
30 June 2011	**136,304**	**59,233**	**16,800**	**1,467**	**4,203**	**60,422**	**278,429**

The movements in property and equipment during the six months ended 30 June 2010 (unaudited) were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2009	**137,705**	**90,082**	**34,753**	**7,622**	**7,870**	**55,719**	**333,751**
Acquisition through business combinations (Note 5)	3,151	258	4,628	269	–	370	8,676
Additions	286	6,133	1,665	193	407	12,310	20,994
Disposals	(1,666)	(549)	(592)	(264)	(812)	(10,579)	(14,462)
Transfers	16,034	(17)	(19)	196	487	(16,681)	–
Revaluation	320	–	–	–	–	–	320
Currency translation adjustment	2,067	2,833	597	319	215	1,560	7,591
30 June 2010	**157,897**	**98,740**	**41,032**	**8,335**	**8,167**	**42,699**	**356,870**
Accumulated impairment							
31 December 2009	**3,435**	**262**	**200**	**14**	**–**	**–**	**3,911**
30 June 2010	**3,435**	**262**	**200**	**14**	**–**	**–**	**3,911**
Accumulated depreciation							
31 December 2009	**4,463**	**23,870**	**16,173**	**3,680**	**2,925**	**–**	**51,111**
Depreciation charge	1,794	5,485	2,854	873	694	–	11,700
Currency translation difference	75	68	47	15	4	–	209
Disposals	(6)	(1,857)	(399)	(96)	(672)	–	(3,030)
30 June 2010	**6,326**	**27,566**	**18,675**	**4,472**	**2,951**	**–**	**59,990**
Net book value:							
31 December 2009	**129,807**	**65,950**	**18,380**	**3,928**	**4,945**	**55,719**	**278,729**
30 June 2010	**148,136**	**70,912**	**22,157**	**3,849**	**5,216**	**42,699**	**292,969**

(Thousands of Georgian Lari)

14. Property and Equipment (continued)

The movements in property and equipment during the year ended 31 December 2010 were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2009	**137,705**	**90,082**	**34,753**	**7,622**	**7,870**	**55,719**	**333,751**
Acquisition through business combinations (Note 5)	3,171	258	4,628	269	–	370	8,696
Additions	805	11,250	2,824	585	830	20,140	36,434
Disposals	(2,224)	(3,843)	(643)	(607)	(2,315)	(11,762)	(21,394)
Transfers	21,929	(17)	(19)	196	994	(23,083)	–
Transfers to investment properties	(3,714)	–	–	–	–	(267)	(3,981)
Revaluation	(9,365)	–	–	–	–	–	(9,365)
Currency translation adjustment	2,209	2,829	640	276	151	1,649	7,754
31 December 2010	**150,516**	**100,559**	**42,183**	**8,341**	**7,530**	**42,766**	**351,895**
Accumulated impairment							
31 December 2009	**3,435**	**262**	**200**	**14**	**–**	**–**	**3,911**
Impairment charge	435	–	–	–	–	–	435
Disposals	(1,648)	–	(82)	–	–	–	(1,730)
31 December 2010	**2,222**	**262**	**118**	**14**	**–**	**–**	**2,616**
Accumulated depreciation							
31 December 2009	**4,463**	**23,870**	**16,173**	**3,680**	**2,925**	**–**	**51,111**
Depreciation charge	3,891	11,510	6,048	1,715	1,346	–	24,510
Currency translation difference	103	31	6	19	–	–	159
Disposals	(322)	(3,219)	(326)	(227)	(1,753)	–	(5,847)
Revaluation	(6,506)	–	–	–	–	–	(6,506)
31 December 2010	**1,629**	**32,192**	**21,901**	**5,187**	**2,518**	**–**	**63,427**
Net book value:							
31 December 2009	**129,807**	**65,950**	**18,380**	**3,928**	**4,945**	**55,719**	**278,729**
31 December 2010	**146,665**	**68,105**	**20,164**	**3,140**	**5,012**	**42,766**	**285,852**

The movements in property and equipment during the year ended 31 December 2009 were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2008	**147,030**	**76,603**	**36,500**	**7,825**	**8,466**	**58,550**	**334,974**
Acquisition through business combinations (Note 5)	–	22	–	33	–	–	55
Additions	2,025	12,813	1,609	821	593	5,566	23,427
Disposals	(4,638)	(350)	(3,426)	(1,084)	(1,896)	(173)	(11,567)
Transfers	588	503	222	49	653	(2,015)	–
Transfers to investment properties	–	–	–	–	–	(6,387)	(6,387)
Revaluation	(3,205)	–	–	–	–	–	(3,205)
Currency translation adjustment	(4,095)	491	(152)	(22)	54	178	(3,546)
31 December 2009	**137,705**	**90,082**	**34,753**	**7,622**	**7,870**	**55,719**	**333,751**
Accumulated impairment							
31 December 2008	**625**	**1**	**84**	**1**	**–**	**–**	**711**
Impairment charge	2,810	261	116	13	–	–	3,200
31 December 2009	**3,435**	**262**	**200**	**14**	**–**	**–**	**3,911**
Accumulated depreciation							
31 December 2008	**1,049**	**14,168**	**11,867**	**2,593**	**2,802**	**–**	**32,479**
Depreciation charge	3,380	10,257	5,579	1,681	1,619	–	22,516
Currency translation difference	280	26	20	15	4	–	345
Disposals	–	(163)	(811)	(392)	(1,500)	–	(2,866)
Revaluation	(246)	(418)	(482)	(217)	–	–	(1,363)
31 December 2009	**4,463**	**23,870**	**16,173**	**3,680**	**2,925**	**–**	**51,111**
Net book value:							
31 December 2008	**145,356**	**62,434**	**24,549**	**5,231**	**5,664**	**58,550**	**301,784**
31 December 2009	**129,807**	**65,950**	**18,380**	**3,928**	**4,945**	**55,719**	**278,729**

(Thousands of Georgian Lari)

14. Property and Equipment (continued)

The movements in property and equipment during the year ended 31 December 2008 were as follows:

	Land & buildings	*Furniture & fixtures*	*Computers & equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revaluation							
31 December 2007	**135,084**	**42,285**	**21,516**	**5,765**	**4,111**	**12,973**	**221,734**
Acquisition through business combinations (Note 5)	18,162	696	1,095	75	–	219	20,247
Additions	1,174	33,398	13,215	3,416	779	57,902	109,884
Disposals	(4,677)	(1,934)	(468)	(1,491)	(1,023)	(1,976)	(11,569)
Transfers	7,815	167	480	263	4,096	(12,821)	–
Revaluation	(11,669)	–	–	–	–	–	(11,669)
Currency translation adjustment	1,141	1,991	662	(203)	503	2,253	6,347
31 December 2008	**147,030**	**76,603**	**36,500**	**7,825**	**8,466**	**58,550**	**334,974**
Accumulated impairment							
31 December 2007	**467**	**–**	**–**	**–**	**–**	**–**	**467**
Impairment charge	158	1	84	1	–	–	244
31 December 2008	**625**	**1**	**84**	**1**	**–**	**–**	**711**
Accumulated depreciation							
31 December 2007	**62**	**7,531**	**6,602**	**1,306**	**1,110**	**–**	**16,611**
Depreciation charge	2,832	7,048	5,515	1,480	1,795	–	18,670
Currency translation difference	(68)	(116)	(88)	(63)	2	–	(333)
Disposals	(563)	(295)	(162)	(130)	(105)	–	(1,255)
Revaluation	(1,214)	–	–	–	–	–	(1,214)
31 December 2008	**1,049**	**14,168**	**11,867**	**2,593**	**2,802**	**–**	**32,479**
Net book value:							
31 December 2007	**134,555**	**34,754**	**14,914**	**4,459**	**3,001**	**12,973**	**204,656**
31 December 2008	**145,356**	**62,434**	**24,549**	**5,231**	**5,664**	**58,550**	**301,784**

The Group engaged, an independent appraiser, to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The most recent revaluation report for the Bank's buildings was 31 December 2010. No significant changes of the value of buildings took place during the six months ended 30 June 2011. If the buildings were measured using the cost model, the carrying amounts of the buildings as at 30 June 2011 and 31 December 2010 would be as follows:

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Cost	69,930	79,800	60,797	66,917
Accumulated depreciation and impairment	(9,975)	(7,550)	(10,487)	(7,353)
Net carrying amount	**59,955**	**72,250**	**50,310**	**59,564**

(Thousands of Georgian Lari)

15. Intangible Assets

Movements in goodwill and intangible assets during the six months ended 30 June 2011 were as follows:

	Goodwill	*Core deposit intangible*	*Computer software and license*	*Total other intangible assets*	*Total*
Cost					
31 December 2010	**142,284**	**2,530**	**30,736**	**33,266**	**175,550**
Additions	–	–	5,155	5,155	5,155
Disposals	–	–	(124)	(124)	(124)
Disposals through sale of subsidiaries	–	(1,688)	(982)	(2,670)	(2,670)
Currency translation difference	–	–	(1,559)	(1,559)	(1,559)
30 June 2011	**142,284**	**842**	**33,226**	**34,068**	**176,352**
Accumulated amortization and impairment					
31 December 2010	**73,072**	**–**	**10,876**	**10,876**	**83,948**
Amortization charge	–	–	1,712	1,712	1,712
Charge for impairment	13,000	–	–	–	13,000
Disposals	–	–	(47)	(47)	(47)
Disposals through sale of subsidiaries	–	–	(195)	(195)	(195)
Currency translation difference	–	–	(19)	(19)	(19)
30 June 2011	**86,072**	**–**	**12,327**	**12,327**	**98,399**
Net book value:					
31 December 2010	**69,212**	**2,530**	**19,860**	**22,390**	**91,602**
30 June 2011	**56,212**	**842**	**20,899**	**21,741**	**77,953**

Impairment charge of goodwill in 2011 completely comprises JSC Belarusky Narodny Bank – GEL 13,000. The main reason for impairment was insufficient future operating cash flows expected to be received per forecasts of the respective cash generating units.

Movements in goodwill and intangible assets during the six months ended 30 June 2010 (unaudited) were as follows:

	Goodwill	*Core deposit intangible*	*Computer software and license*	*Total other intangible assets*	*Total*
Cost					
31 December 2009	**138,849**	**2,530**	**24,681**	**27,211**	**166,060**
Acquisition through business combinations (Note 5)	3,342	–	8	8	3,350
Additions	–	–	3,861	3,861	3,861
Disposals	–	–	(296)	(296)	(296)
Currency translation difference	–	–	1,857	1,857	1,857
30 June 2010	**142,191**	**2,530**	**30,111**	**32,641**	**174,832**
Accumulated amortization and impairment					
31 December 2009	**73,072**	**–**	**7,546**	**7,546**	**80,618**
Amortization charge	–	–	1,614	1,614	1,614
Currency translation difference	–	–	84	84	84
30 June 2010	**73,072**	**–**	**9,244**	**9,244**	**82,316**
Net book value:					
31 December 2009	**65,777**	**2,530**	**17,135**	**19,665**	**85,442**
30 June 2010	**69,119**	**2,530**	**20,867**	**23,397**	**92,516**

(Thousands of Georgian Lari)

15. Intangible Assets (continued)

Movements in goodwill and intangible assets during the year ended 31 December 2010 were as follows:

	Goodwill	*Core deposit intangible*	*Computer software and license*	*Total other intangible assets*	*Total*
Cost					
31 December 2009	**138,849**	**2,530**	**24,681**	**27,211**	**166,060**
Acquisition through business combinations (Note 5)	3,435	–	8	8	3,443
Additions	–	–	5,405	5,405	5,405
Disposals	–	–	(296)	(296)	(296)
Currency translation difference	–	–	938	938	938
31 December 2010	**142,284**	**2,530**	**30,736**	**33,266**	**175,550**
Accumulated amortization and impairment					
31 December 2009	**73,072**	**–**	**7,546**	**7,546**	**80,618**
Amortization charge	–	–	3,453	3,453	3,453
Disposals	–	–	(117)	(117)	(117)
Currency translation difference	–	–	(6)	(6)	(6)
31 December 2010	**73,072**	**–**	**10,876**	**10,876**	**83,948**
Net book value:					
31 December 2009	**65,777**	**2,530**	**17,135**	**19,665**	**85,442**
31 December 2010	**69,212**	**2,530**	**19,860**	**22,390**	**91,602**

Movements in goodwill and intangible assets during the year ended 31 December 2009 were as follows:

	Goodwill	*Core deposit intangible*	*Computer software and license*	*Total other intangible assets*	*Total*
Cost					
31 December 2008	**134,238**	**2,499**	**20,791**	**23,290**	**157,528**
Acquisition through business combinations (Note 5)	5,015	–	–	–	5,015
Additions	–	33	4,468	4,501	4,501
Disposals	(411)	–	(577)	(577)	(988)
Currency translation difference	7	(2)	(1)	(3)	4
31 December 2009	**138,849**	**2,530**	**24,681**	**27,211**	**166,060**
Accumulated amortization and impairment					
31 December 2008	**–**	**–**	**5,069**	**5,069**	**5,069**
Amortization charge	–	–	2,912	2,912	2,912
Charge for impairment	73,072	–	–	–	73,072
Disposals	–	–	(404)	(404)	(404)
Currency translation difference	–	–	(31)	(31)	(31)
31 December 2009	**73,072**	**–**	**7,546**	**7,546**	**80,618**
Net book value:					
31 December 2008	**134,238**	**2,499**	**15,722**	**18,221**	**152,459**
31 December 2009	**65,777**	**2,530**	**17,135**	**19,665**	**85,442**

Impairment charge of goodwill in 2009 comprise: JSC BG Bank – GEL 68,016, SB Iberia – GEL 3,907, SB Iberia 2 – GEL 744, JSC United Securities Registrar of Georgia – GEL 366 and JSC Intertour – GEL 39. In all of these instances, the main reason for impairment was insufficient future operating cash flows expected to be received per forecasts of the respective cash generating units.

(Thousands of Georgian Lari)

15. Intangible Assets (continued)

Movements in goodwill and intangible assets during the year ended 31 December 2008 were as follows:

	Goodwill	*Core deposit intangible*	*Computer software and license*	*Total other intangible assets*	*Total*
Cost					
31 December 2007	**110,498**	**1,688**	**7,611**	**9,299**	**119,797**
Acquisition through business combinations (Note 5)	23,682	843	117	960	24,642
Additions	–	–	12,997	12,997	12,997
Disposals	–	–	(170)	(170)	(170)
Currency translation difference	58	(32)	236	204	262
31 December 2008	**134,238**	**2,499**	**20,791**	**23,290**	**157,528**
Accumulated amortization and impairment					
31 December 2007	**426**	**–**	**3,382**	**3,382**	**3,808**
Amortization charge	–	–	1,618	1,618	1,618
Disposals	(426)	–	(12)	(12)	(438)
Currency translation difference	–	–	81	81	81
31 December 2008	**–**	**–**	**5,069**	**5,069**	**5,069**
Net book value:					
31 December 2007	**110,072**	**1,688**	**4,229**	**5,917**	**115,989**
31 December 2008	**134,238**	**2,499**	**15,722**	**18,221**	**152,459**

As at 30 June 2011 goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC Bank of Georgia
- JSC Belarusky Narodny Bank
- JSC Insurance Company Aldagi – BCI
- JSC My Family Clinic
- JSC Intertour
- Planeta Forte, LLC

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget under the assumption that business will have a zero constant growth rate after the budgeted period and the cash flows will be stable. The discount rate applied to cash flow projections is the weighted average cost of capital ("WACC") of each particular cash-generating unit.

Carrying amount of goodwill (less impairment) allocated to each of the cash-generating units follows:

		WACC applied for impairment		*Carrying amount of goodwill*	
	Effective annual growth rate in three-year financial budgets	*30 June 2011*	*31 December 2010*	*30 June 2011*	*31 December 2010*
JSC Belarusky Narodny Bank	32.20%	8.51%	8.51%	10,394	23,394
JSC Bank of Georgia	20.17%	8.82%	8.82%	22,398	22,398
JSC Insurance Company Aldagi – BCI	20.17%	12.61%	12.61%	18,742	18,742
JSC Teliani Valley	27.17%	14.56%	14.56%	3,292	3,292
JSC Intertour	20.00%	14.96%	14.96%	659	659
Planeta Forte, LLC	20.00%	2.78%	2.78%	364	364
JSC My Family Clinic	20.17%	12.61%	12.61%	220	220
Teliani Trading (Ukraine), LLC	27.17%	14.56%	14.56%	143	143
Total				**56,212**	**69,212**

(Thousands of Georgian Lari)

15. Intangible Assets (continued)

The three-year effective growth rate indicated in the table above represents the effective average annual growth rate that is embedded into the respective three-year financial budget of the respective entity, as approved by its management, calculated individually per each respective entity. Third year operating cash flows were taken at perpetuity and zero growth-rate was applied beyond the third year.

	WACC applied for impairment		*Carrying amount of goodwill*	
	31 December 2009	*31 December 2008*	*31 December 2009*	*31 December 2008*
JSC Belarusky Narodny Bank	16.26%	N/A	23,394	23,394
JSC Bank of Georgia	8.70%	7.5%	22,398	22,391
JSC Insurance Company Aldagi – BCI	17.20%	15.8%	18,742	18,742
JSC Intertour	14.08%	12.0%	659	698
Planeta Forte, LLC	17.20%	N/A	364	–
JSC My Family Clinic	17.20%	15.8%	220	220
JSC BG Bank	10.01%	11.7%	–	68,016
JSC United Securities Registrar of Georgia	19.85%	14.0%	–	366
JSC Nova Technology	N/A	14.0%	–	411
Total			**65,777**	**134,238**

Goodwill amount that arose from JSC Intellect Bank and JSC Tbiluniversal Bank acquisition is allocated to JSC Bank of Georgia, mainly due to the fact that JSC Bank of Georgia has utilized the assets and liabilities of the said financial institutions.

Impairment testing of goodwill and other intangible assets with indefinite lives

Goodwill acquired through business combinations with indefinite lives have been allocated to four individual cash-generating units, which are also reportable segments, for impairment testing: corporate banking, retail banking, insurance and asset & wealth management and brokerage.

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

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Insurance & Healthcare	18,962	18,962	18,962	18,962
Retail banking	12,433	12,433	14,708	14,701
BNB & BGB	10,394	23,394	23,394	91,410
Corporate banking	9,965	9,965	7,690	7,690
Liberty Consumer	4,458	4,458	1,023	1,475
Total	**56,212**	**69,212**	**65,777**	**134,238**

Key assumptions used in value in use calculations

The recoverable amounts of the cash generating units have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering from one to three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets.

The following rates are used by the Bank for corporate banking and retail banking:

	Corporate Banking				*Retail Banking*			
	30 June 2011, %	*31 December 2010, %*	*31 December 2009, %*	*31 December 2008, %*	*30 June 2011, %*	*31 December 2010, %*	*31 December 2009, %*	*31 December 2008, %*
Discount rate	8.9%	8.9%	9.1%	7.5%	8.9%	8.9%	8.8%	7.5%

(Thousands of Georgian Lari)

15. Intangible Assets (continued)

Key assumptions used in value in use calculations (continued)

The following rates are used by the Bank for Insurance and Brokerage and Asset & Wealth Management:

	Insurance & Healthcare				*Liberty Consumer*			
	30 June 2011, %	***31 December 2010, %***	***31 December 2009, %***	***31 December 2008, %***	***30 June 2011, %***	***31 December 2010, %***	***31 December 2009, %***	***31 December 2008, %***
Discount rate	12.6%	12.6%	17.2%	15.8%	14.5%	14.5%	16.45%	12%-14%

The following rates are used by the Bank for BNB & BGB:

	BNB & BGB			
	30 June 2011, %	***31 December 2010, %***	***31 December 2009, %***	***31 December 2008, %***
Discount rate	8.5%	8.9%	9.0%	7.5%

The calculation of value-in-use for both Asset Management and Retail Banking units is most sensitive to interest margins and discount rates assumptions:

Discount rates

Discount rates reflect management's estimate of return of capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using WACC.

16. Taxation

The corporate income tax benefit (expense) comprises:

	For the six months ended 30 June		*For the year ended 31 December*		
	2011	***2010***	***2010***	***2009***	***2008***
		Unaudited			
Current income tax benefit (expense)	7,142	(437)	(12,365)	(1,872)	(6,762)
Deferred income tax benefit (expense)	9,119	(5,852)	(3,411)	8,870	7,740
Income tax benefit (expense)	**16,261**	**(6,289)**	**(15,776)**	**6,998**	**978**
Income tax (expense) benefit attributable to continuing operations	**(6,926)**	**(6,289)**	**(15,776)**	**6,998**	**978**
Income tax benefit attributable to a discontinued operation (Note 27)	**23,187**	**–**	**–**	**–**	**–**
Deferred income tax benefit (expense) from continuing operations in other comprehensive (loss) income	3,299	(163)	206	(704)	3,189
Deferred income tax benefit from discontinued operations in other comprehensive income (Note 27)	625	–	–	–	–
Total deferred income tax benefit (expense) recognized in other comprehensive income	**3,924**	**(163)**	**206**	**(704)**	**3,189**

(Thousands of Georgian Lari)

Deferred tax related to items charged or credited to other comprehensive income during the six months ended 30 June 2011, six months ended 2010 and years ended 31 December 2010, 2009 and 2008 is as follows:

	For the six months ended 30 June		For the year ended 31 December		
	2011	2010	2010	2009	2008
		Unaudited			
Currency translation differences	4,756	–	–	–	–
Net losses on investment securities available for sale	(81)	(115)	146	(620)	1,530
Revaluation of buildings	(751)	(48)	(58)	124	1,659
Other	–	–	118	(208)	–
Income tax benefit (expense) to other comprehensive income	**3,924**	**(163)**	**206**	**(704)**	**3,189**

The income tax rate applicable to the majority of the Group's income is the income tax rate applicable to subsidiaries income which ranges from 15% to 25% (2010: from 15% to 26, 2009: from 15% to 26%, 2008: from 15% to 26%). Reconciliation between the expected and the actual taxation charge is provided below.

The effective income tax rate differs from the statutory income tax rates. As at 30 June 2011, 30 June 2010, 31 December 2010, 31 December 2009 and 31 December 2008 a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	30 June 2011	30 June 2010	31 December 2010	31 December 2009	31 December 2008
		Unaudited			
Profit (loss) before income tax benefit (expense) from continuing operations	82,918	42,635	98,443	(105,906)	(804)
Net loss before income tax benefit from discontinued operations (Note 27)	(35,434)	–	–	–	–
Profit (loss) before income tax benefit (expense)	**47,484**	**42,635**	**98,443**	**(105,906)**	**(804)**
Statutory tax rate	15%	15%	15%	15%	15%
Theoretical income tax (expense) benefit at statutory tax rate	**(7,123)**	**(6,395)**	**(14,766)**	**15,886**	**121**
Tax at the domestic rates applicable to profits in the respective country	(936)	94	(291)	3,614	837
Correction of prior year declarations	8,189	–	–	–	–
Loss on disposal of subsidiary	18,593	–	–	–	–
Other operating income	701	95	229	408	(207)
State securities at lower tax rates	–	252	564	677	1,020
Tax effect of inter-company transactions	–	–	–	–	783
Non-deductible expenses:					
– Impairment of goodwill	(3,250)	–	–	(10,308)	–
– Share-based compensation expenses	–	–	(1,325)	(717)	(1,240)
– Business trips	–	–	(288)	–	–
– Entertainment	–	–	(71)	–	–
– Charity	–	–	(10)	–	–
– Other impairment recoveries	–	–	–	(2,460)	(171)
– Other	87	(335)	182	(102)	(165)
Income tax benefit (expense)	**16,261**	**(6,289)**	**(15,776)**	**6,998**	**978**
Income tax (expense) benefit attributable to continuing operations	(6,926)	(6,289)	(15,776)	6,998	978
Income tax benefit attributable to a discontinued operation (Note 27)	23,187	–	–	–	–
Income tax benefit (expense)	**16,261**	**(6,289)**	**(15,776)**	**6,998**	**978**

(Thousands of Georgian Lari)

16. Taxation (continued)

Correction of prior year declarations are fully attributable to Georgia and it includes GEL 3,315 of the corporate income tax benefit for the prior years, recognized in 2011, based on the new tax ruling obtained from the Tax Authorities in Georgia regarding the updated treatment of the deductibility of the share-based compensation expense before taxable profit.

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

As at 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008 tax assets and liabilities consist of the following:

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Current income tax assets	7,584	2,247	7,997	8,095
Deferred income tax assets	13,390	18,178	15,487	4,691
Income tax assets	**20,974**	**20,425**	**23,484**	**12,786**
Current income tax liabilities	130	4,251	574	779
Deferred income tax liabilities	23,853	30,901	24,661	23,615
Income tax liabilities	**23,983**	**35,152**	**25,235**	**24,394**

(Thousands of Georgian Lari)

16. Taxation (continued)

Deferred tax assets and liabilities as at 30 June 2011 and 30 June 2010 and their movements for the respective six months follows:

		Origination and reversal of temporary differences					***Origination and reversal of temporary differences***			
	31 December 2009	***In the income statement***	***In other compre-hensive income***	***Effect of business combi-nation***	***30 June 2010*** *(Unaudited)*	***31 December 2010***	***In the income statement***	***In other compre-hensive income***	***Disposal of Subsidiary***	***30 June 2011***
Tax effect of deductible temporary differences:										
Amounts due to credit institutions	–	387	–	–	387	–	22	–	–	22
Investment securities: available-for-sale	911	(74)	(115)	–	722	1,210	7	8	(7)	1,218
Loans to customers	10,129	1,083	–	–	11,212	10,569	33	–	(10,188)	414
Investment properties	1,604	384	–	–	1,988	1,953	(12)	–	(337)	1,604
Reinsurance assets	372	(117)	–	–	255	255	–	–	–	255
Reinsurance premiums receivables	1,697	–	–	–	1,697	1,697	–	–	–	1,697
Allowances for impairment and provisions for other losses	1,197	134	–	–	1,331	2,064	(63)	–	–	2,001
Tax losses carried forward	19,492	(11,808)	–	–	7,684	4,472	8,670	3,966	(1,035)	16,073
Finance lease receivables	319	14	–	–	333	319	–	–	–	319
Intangible assets	264	16	–	–	280	288	15	–	–	303
Property and equipment	2,221	20	(48)	78	2,271	2,569	2,755	593	–	5,917
Other assets	822	3	–	–	825	1,003	719	–	(13)	1,709
Other liabilities	1,925	(715)	–	–	1,210	1,227	101	790	(218)	1,900
Gross deferred tax assets	**40,953**	**(10,673)**	**(163)**	**78**	**30,195**	**27,626**	**12,247**	**5,357**	**(11,798)**	**33,432**
Unrecognized deferred tax assets	(131)	131	–	–	–	–	–	–	–	–
Deferred tax assets	**40,822**	**(10,542)**	**(163)**	**78**	**30,195**	**27,626**	**12,247**	**5,357**	**(11,798)**	**33,432**
Tax effect of taxable temporary differences:										
Fair value measurement of securities	–	–	–	–	–	203	(183)	–	–	20
Amounts due to credit institutions	1,734	49	–	–	1,783	1,773	(8)	–	(31)	1,734
Amounts due to customers	508	864	–	–	1,372	1,467	(23)	–	(942)	502
Securities available-for-sale	182	–	–	–	182	564	(160)	89	–	493
Loans to customers	20,879	(4,897)	–	–	15,982	10,565	491	–	–	11,056
Reinsurance assets	27	–	–	–	27	40	–	–	–	40
Allowances for impairment and provisions for other losses	–	28	–	–	28	770	14	–	–	784
Other insurance liabilities & pension fund obligations	–	–	–	–	–	7	218	–	–	225
Property and equipment	22,451	(2,589)	–	352	20,214	19,422	(356)	1,344	57	20,467
Investment properties	548	9	–	–	557	568		–	–	568
Intangible assets	2,412	631	–	–	3,043	3,776	1,043	–	(99)	4,720
Other assets	783	51	–	–	834	141	252	–	–	393
Other liabilities	472	1,164	–	43	1,679	1,053	1,840	–	–	2,893
Deferred tax liabilities	**49,996**	**(4,690)**	**–**	**395**	**45,701**	**40,349**	**3,128**	**1,433**	**(1,015)**	**43,895**
Net deferred tax assets (liabilities)	**(9,174)**	**(5,852)**	**(163)**	**(317)**	**(15,506)**	**(12,723)**	**9,119**	**3,924**	**(10,783)**	**(10,463)**

(Thousands of Georgian Lari)

16. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years follows:

		Origination and reversal of temporary differences				Origination and reversal of temporary differences				Origination and reversal of temporary differences			
	2007	*In the income statement*	*In other compre-hensive income*	*Effect of business combi-nation*	*2008*	*In the income statement*	*In other compre-hensive income*	*Effect of business combi-nation*	*2009*	*In the income statement*	*In other compre-hensive income*	*Effect of business comb-nation*	*2010*
Tax effect of deductible temporary differences:													
Amounts due to credit institutions	35	(35)	–	–	–	–	–	–	–	–	–	–	–
Investment securities: available-for-sale	–	296	1,530	–	1,826	(295)	(620)	–	911	20	279	–	1,210
Loans to customers	80	390	–	–	470	9,659	–	–	10,129	440	–	–	10,569
Investment properties	–	–	–	–	–	–	–	1,604	1,604	349	–	–	1,953
Securities issued	55	(55)	–	–	–	–	–	–	–	–	–	–	–
Reinsurance assets	124	119	–	–	243	129	–	–	372	(117)	–	–	255
Reinsurance premiums receivables	–	2,073	–	–	2,073	(376)	–	–	1,697	–	–	–	1,697
Allowances for impairment and provisions for other losses	225	240	–	–	465	732	–	–	1,197	867	–	–	2,064
Tax losses carried forward	1,313	16,689	–	–	18,002	1,516	(26)	–	19,492	(15,020)	–	–	4,472
Finance lease receivables	7	277	–	–	284	35	–	–	319	–	–	–	319
Intangible assets	181	58	–	–	239	25	–	–	264	24	–	–	288
Property and equipment	2	(175)	1,659	297	1,783	149	289	–	2,221	(20)	290	78	2,569
Other assets	115	348	–	–	463	359	–	–	822	147	34	–	1,003
Other liabilities	302	433	–	–	735	1,190	–	–	1,925	(698)	–	–	1,227
Gross deferred tax assets	**2,439**	**20,658**	**3,189**	**297**	**26,583**	**13,123**	**(357)**	**1,604**	**40,953**	**(14,008)**	**603**	**78**	**27,626**
Unrecognized deferred tax assets	(207)	207	–	–	–	–	(131)	–	(131)	131	–	–	–
Deferred tax assets	**2,232**	**20,865**	**3,189**	**297**	**26,583**	**13,123**	**(488)**	**1,604**	**40,822**	**(13,877)**	**603**	**78**	**27,626**
Tax effect of taxable temporary differences:													
Fair value measurement of securities	–	–	–	–	–	–	–	–	–	203	–	–	203
Amounts due to credit institutions	1,710	341	–	–	2,051	(317)	–	–	1,734	39	–	–	1,773
Amounts due to customers	625	(117)	–	–	508	–	–	–	508	1,078	(119)	–	1,467
Securities available-for-sale	182	–	–	–	182	–	–	–	182	249	133	–	564
Loans to customers	4,491	2,612	–	–	7,103	13,776	–	–	20,879	(10,314)	–	–	10,565
Reinsurance assets	27	–	–	–	27	–	–	–	27	13	–	–	40
Insurance premium receivables	6	(6)	–	–	–	–	–	–	–	–	–	–	–
Allowances for impairment and provisions for other losses	38	1,185	–	–	1,223	(1,223)	–	–	–	770	–	–	770
Other insurance liabilities & pension fund obligations	–	–	–	–	–	–	–	–	–	7	–	–	7
Property and equipment	20,156	8,324	–	–	28,480	(6,194)	165	–	22,451	(3,756)	348	379	19,422
Investment properties	3,203	(342)	–	–	2,861	(2,313)	–	–	548	20	–	–	568
Intangible assets	1,008	1,289	–	–	2,297	87	28	–	2,412	1,364	–	–	3,776
Other assets	936	(595)	–	–	341	399	23	20	783	(677)	35	–	141
Other liabilities	–	434	–	–	434	38	–	–	472	538	–	43	1,053
Deferred tax liabilities	**32,382**	**13,125**	**–**	**–**	**45,507**	**4,253**	**216**	**20**	**49,996**	**(10,466)**	**397**	**422**	**40,349**
Net deferred tax assets (liabilities)	**(30,150)**	**7,740**	**3,189**	**297**	**(18,924)**	**8,870**	**(704)**	**1,584**	**(9,174)**	**(3,411)**	**206**	**(344)**	**(12,723)**

17. Other Impairment Allowance and Provisions

The movements in other impairment allowances and provisions were as follows:

	Impairment allowance for investments in associates	*Impairment allowance for other assets*	*Impairment allowance for available-for-sale investment securities*	*Provision for guarantees and commitments*	*Total*
31 December 2009	**2,511**	**5,720**	**818**	**2,126**	**11,175**
(Reversal) charge	(637)	(2,901)	2	205	(3,331)
Write-offs	(1,367)	(137)	(701)	–	(2,205)
Recoveries	–	65	–	–	65
30 June 2010 (unaudited)	**507**	**2,747**	**119**	**2,331**	**5,704**
31 December 2010	**2,238**	**3,309**	**1,982**	**4,407**	**11,936**
Charge (reversal)	–	1,159	–	(4,399)	(3,240)
Write-offs	(2,238)	(1,316)	(1,982)	–	(5,536)
Recoveries	–	306	–	–	306
30 June 2011	**–**	**3,458**	**–**	**8**	**3,466**

(Thousands of Georgian Lari)

17. Other Impairment Allowance and Provisions (continued)

	Impairment allowance for investments in associates	Impairment allowance for other assets	Impairment allowance for available-for-sale investment securities	Provision for guarantees and commitments	Total
31 December 2007	**–**	**6**	**–**	**1,003**	**1,009**
Charge	274	580	–	3,697	4,551
Write-offs	–	(57)	–	(437)	(494)
Recoveries	–	20	–	–	20
31 December 2008	**274**	**549**	**–**	**4,263**	**5,086**
Charge (reversal)	2,237	5,513	818	(2,137)	6,431
Write-offs	–	(342)	–	–	(342)
31 December 2009	**2,511**	**5,720**	**818**	**2,126**	**11,175**
Charge (reversal)	1,495	(2,130)	1,941	2,281	3,587
Write-offs	(1,768)	(345)	(777)	–	(2,890)
Recoveries	–	64	–	–	64
31 December 2010	**2,238**	**3,309**	**1,982**	**4,407**	**11,936**

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

18. Other Assets and Other Liabilities

Other assets comprise:

	30 June 2011	31 December 2010	31 December 2009	31 December 2008
Derivative financial assets	36,068	2,933	1,129	255
Insurance premiums receivable	26,831	21,413	20,619	20,497
Accounts receivable	20,221	17,093	4,026	7,243
Inventory	14,361	9,828	1,212	1,966
Reinsurance assets	8,233	7,307	4,920	21,493
Settlements on operations with securities	5,486	5,182	3,027	39
Receivables from money transfers	3,981	3,358	2,508	5,208
Operating taxes receivables	3,490	1,793	1,296	1,363
Assets purchased for finance lease purposes	1,432	1,434	2,316	–
Prepayments for purchase of property and equipment	1,164	959	344	245
Foreclosed assets	1,082	1,049	946	3,464
Receivables from sale of assets	1,062	797	1,420	2,317
Trading securities owned	833	1,218	2,268	92
Operating lease receivables	407	266	426	448
Receivable from documentary operations	151	1,338	4,338	–
Assets held-for-sale	–	314	–	4,469
Receivables from factoring operations	–	–	–	4,539
Other	2,954	2,447	3,205	2,032
	127,756	**78,729**	**54,000**	**75,670**
Less – Allowance for impairment of other assets (Note 17)	(3,458)	(3,309)	(5,720)	(549)
Other assets	**124,298**	**75,420**	**48,280**	**75,121**

(Thousands of Georgian Lari)

18. Other Assets and Other Liabilities (continued)

Other liabilities comprise:

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Insurance contracts liabilities	38,605	32,695	30,304	44,340
Derivative financial liabilities	33,510	17,525	7,460	1,323
Accruals for employee compensation	24,364	25,111	21,860	14,165
Other insurance liabilities	6,963	4,431	6,152	9,424
Pension benefit obligations	5,700	4,949	3,856	1,642
Accounts payable	5,409	2,617	6,269	12,803
Accruals and deferred income	5,260	3,268	35	–
Creditors	3,740	8,412	4,226	5,858
Other taxes payable	1,632	2,418	2,862	4,783
Dividends payable	303	303	314	314
Amounts payable for share acquisitions	1	259	254	–
Amounts payable for purchase of intangible assets	–	9	78	5,959
Other	6,988	4,790	2,236	939
Other liabilities	**132,475**	**106,787**	**85,906**	**101,550**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	30 June 2011			*31 December 2010*		
	Notional amount	*Fair value Asset*	*Fair value Liability*	*Notional amount*	*Fair value Asset*	*Fair value Liability*
Interest rate contracts						
Forwards and Swaps – foreign	290,395	–	12,035	338,369	–	14,527
Foreign exchange contracts						
Forwards and Swaps – domestic	105,737	–	6,747	66,058	777	597
Forwards and Swaps – foreign	54,328	34,326	13,264	–	–	–
Options – foreign	169,141	1,291	1,388	54,121	1,815	2,211
Equity / Commodity contracts						
Call options – foreign	5,000	451	–	3,014	341	–
Embedded derivatives from investment deposits	–	–	76	–	–	190
Total derivative assets / liabilities	**624,601**	**36,068**	**33,510**	**461,562**	**2,933**	**17,525**

	2009			*2008*		
	Notional amount	*Fair value Asset*	*Fair value Liability*	*Notional amount*	*Fair value Asset*	*Fair value Liability*
Interest rate contracts						
Forwards and Swaps – foreign	332,108	–	6,447	–	–	–
Foreign exchange contracts						
Forwards and Swaps – domestic	24,410	–	288	2,501	–	252
Options – foreign	1,096	82	–	–	–	–
Equity / Commodity contracts						
Put options – foreign	–	–	–	700	177	–
Call options – foreign	8,429	1,047	–	1,667	78	–
Embedded derivatives from investment deposits	–	–	725	–	–	1,071
Total derivative assets / liabilities	**366,043**	**1,129**	**7,460**	**4,868**	**255**	**1,323**

(Thousands of Georgian Lari)

19. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Borrowings from international credit institutions	813,350	1,003,926	913,579	1,108,014
Time deposits and inter-bank loans	170,215	130,284	12,761	91,389
Sub-total	**983,565**	**1,134,210**	**926,340**	**1,199,403**
Correspondent accounts	3,027	4,717	2,275	17,319
Amounts due to credit institutions	**986,592**	**1,138,927**	**928,615**	**1,216,722**

During the six months ended 30 June 2011 the Group received short-term funds from Georgian banks in different currencies. As at 30 June 2011 the Group had an equivalent of GEL 2,000 (2010: GEL 13,030, 2009: GEL 1,566, 2008: GEL 32,795) in foreign currencies received as deposits from Georgian banks. During the six months ended 30 June 2011 the Group paid up to 3.0% interest on these deposits (2010: 4.0%, 2009: 0.2%, 2008: 4.85%).

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

As at 30 June 2011

Credit institution	*Grant date*	*Contractual maturity*	*Currency*	*Facility amount in original currency*	*Outstanding Balance as at 30 June 2011 in GEL (*)*
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	200,000	120,691
National Bank of Georgia	30-Jun-11	7-Jul-11	GEL	79,500	79,500
European Bank for Reconstructions and Development	13-Jan-09	15-Jan-14	USD	50,000	71,196
International Finance Corporation	13-Jan-09	15-Jul-13	USD	50,000	69,840
Merrill Lynch International **	17-Aug-07	17-Aug-12	USD	35,000	59,403
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	30,000	49,547
Netherland Development Finance Company **	18-Jul-08	15-Oct-18	USD	30,000	49,480
European Bank for Reconstructions and Development **	13-Jan-09	15-Jan-19	USD	26,044	41,046
International Finance Corporation **	13-Jan-09	15-Jan-19	USD	26,044	41,041
Asian Development Bank	1-Dec-10	1-Dec-15	USD	50,000	40,941
International Financial Corporatation **	13-Jan-09	15-Jan-19	USD	23,956	40,342
European Bank for Reconstructions and Development**	13-Jan-09	15-Jan-19	USD	23,956	40,273
Overseas Private Investment Corporation	23-Dec-08	20-Dec-18	USD	29,000	39,862
European Bank for Reconstructions and Development	12-Nov-10	5-Dec-15	USD	20,000	33,110
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	20,000	33,032
Semper Augustos B.V. **	31-Oct-07	30-Oct-17	USD	15,000	25,499
Overseas Private Investment Corporation **	23-Dec-08	20-Dec-18	USD	10,000	16,438
Netherland Development Finance Company	22-Jan-07	15-Mar-14	USD	12,500	10,931
JSC Cartu Bank	30-Jun-11	1-Jul-11	GEL	10,000	10,000
International Finance Corporation	21-Oct-10	15-Dec-14	USD	5,000	8,247
OJSC Pasha Bank	8-Jun-11	8-Jul-11	USD	4,800	8,019
World Business Capital	17-Feb-06	25-Dec-15	USD	10,000	7,431
European Bank for Reconstructions and Development	20-Jun-11	25-Jul-16	USD	20,000	6,133
JSC HSBC Bank Georgia	30-Jun-11	1-Jul-11	GEL	6,000	6,000
World Business Capital	29-May-07	25-Mar-17	USD	4,151	5,626
UAB Medicinos Bankas	11-May-11	11-Aug-11	USD	3,000	5,027
JSC Procredit Bank	30-Jun-11	7-Jul-11	GEL	5,000	5,000
JSC Cartu Bank	30-Jun-11	7-Jul-11	GEL	5,000	5,000
Balances less than GEL 5,000	various	various	various	various	54,910
Total					**983,565**

(Thousands of Georgian Lari)

19. Amounts Due to Credit Institutions (continued)

As at 31 December 2010

Credit institution	*Grant date*	*Contractual maturity*	*Currency*	*Facility amount in original currency*	*Outstanding Balance as at 31 December 2010 in GEL (*)*
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	200,000	270,880
International Finance Corporation	13-Jan-09	15-Jul-13	USD	50,000	89,015
European Bank for Reconstructions and Development	13-Jan-09	15-Jan-14	USD	50,000	88,258
National Bank of Georgia	30-Dec-10	6-Jan-11	GEL	66,300	66,300
Merrill Lynch International **	17-Aug-07	17-Aug-12	USD	35,000	62,476
Netherland Development Finance Company **	18-Jul-08	15-Oct-18	USD	30,000	52,916
Overseas Private Investment Corporation	23-Dec-08	20-Dec-18	USD	29,000	45,209
Asian Development Bank	1-Dec-10	1-Dec-15	USD	50,000	43,566
European Bank for Reconstructions and Development**	13-Jan-09	15-Jan-19	USD	23,956	43,402
International Financial Corporatation **	13-Jan-09	15-Jan-19	USD	23,956	43,396
International Finance Corporation **	13-Jan-09	15-Jan-19	USD	26,044	42,796
European Bank for Reconstructions and Development **	13-Jan-09	15-Jan-19	USD	26,044	42,708
European Bank for Reconstructions and Development	12-Nov-10	5-Dec-15	USD	20,000	35,272
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	30,000	35,016
Semper Augustos B.V. **	31-Oct-07	30-Oct-17	USD	15,000	27,134
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	20,000	24,529
Overseas Private Investment Corporation **	23-Dec-08	20-Dec-18	USD	10,000	17,477
Netherland Development Finance Company	22-Jan-07	15-Mar-14	USD	12,500	13,502
International Finance Corporation	21-Oct-10	15-Dec-14	USD	5,000	8,774
World Business Capital	17-Feb-06	25-Dec-15	USD	10,000	8,699
JSC Cartu Bank	23-Dec-10	6-Jan-11	GEL	7,500	7,512
JSC HSBC Bank Georgia	15-Nov-10	15-Feb-11	USD	4,000	7,112
OJSC Pasha Bank	8-Nov-10	8-Feb-11	EUR	3,000	7,050
World Business Capital	29-May-07	25-Mar-17	USD	4,151	6,441
JSC International Bank of Azerbaijan - Georgia	31-Dec-10	3-Jan-11	GEL	6,400	6,400
JSC BTA Bank	10-Nov-10	22-Feb-11	USD	3,000	5,335
UAB Medicinos Bankas	12-Nov-10	11-Feb-11	USD	3,000	5,335
Balances less than GEL 5,000	various	various	various	various	27,700
Total					**1,134,210**

As of 31 December 2009

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

(Thousands of Georgian Lari)

19. Amounts Due to Credit Institutions (continued)

As of 31 December 2008

Credit institution	***Grant date***	***Contractual maturity***	***Currency***	***Facility amount in original currency***	***Outstanding Balance as of 31 December 2008 in GEL (*)***
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	200,000	340,864
Rubrika Finance Company Netherlands B.V.	6-Jun-08	6-Jun-10	USD	140,000	230,740
Merrill Lynch International	21-Dec-07	21-Jan-09	USD	65,000	111,806
Citibank International PLC	17-Aug-07	17-Feb-09	USD	43,500	73,780
Merrill Lynch International **	17-Aug-07	17-Aug-12	USD	35,000	59,488
National Bank of Georgia	30-Sep-08	30-Sep-09	GEL	58,900	58,900
Netherland Development Finance Company **	30-Jun-08	15-Oct-18	USD	30,000	50,351
Overseas Private Investment Corporation	19-Dec-08	19-Dec-18	USD	29,000	47,605
Citibank International PLC	20-Aug-07	20-Aug-10	USD	25,000	41,875
Semper Augustos B.V. **	31-Oct-07	25-Oct-17	USD	15,000	25,515
Netherland Development Finance Company	22-Jan-07	15-Mar-14	USD	12,500	20,387
Overseas Private Investment Corporation **	19-Dec-08	19-Dec-18	USD	10,000	16,379
JSC TBC Bank	31-Dec-08	5-Jan-09	EUR	5,000	11,824
World Business Capital	17-Feb-06	1-Oct-16	USD	10,000	11,242
Hillside Apex Fund Ltd **	14-Aug-06	14-Aug-16	USD	5,000	8,630
JSC TBC Bank	26-Dec-08	5-Jan-09	USD	5,000	8,340
World Business Capital	29-Mar-07	25-Mar-17	USD	5,226	7,633
JSC HSBC Bank Georgia	29-Jul-08	29-Jan-09	USD	4,000	6,926
Commerzbank AG	16-Dec-05	30-Dec-10	USD	5,000	5,408
JSC TBC Bank	29-Dec-08	6-Jan-09	GEL	5,000	5,001
Balances less than GEL 5,000	various	various	various	various	56,709
Total					**1,199,403**

*** - includes accrued interest**
**** - total subordinated loans comprised GEL 313,522 as at 30 June 2011 (2010: GEL 332,305, 2009: GEL 317,792, 2008: GEL 160,363)**

During the six months ended 30 June 2011 and years ended 2010, 2009 and 2008 the Group paid up to 11.65% on borrowings from international credit institutions.

Agreements for significant borrowings contain certain covenants requiring the Group for different limits for capital adequacy, liquidity, currency position, credit exposures, leverage and others. At 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008 the Group complied with all the financial covenants of the loans received from credit institutions.

The borrowings received on 13 January 2009 from the European Bank for Reconstructions and Development and International Finance Corporation, comprising USD 26,044 thousand each, had a convertibility feature valid for 5 years from the loan granting date (convertibility period). Number of estimated potential shares to be issued under these convertible facilities comprises 3,474,614 ordinary shares (Note 21) of the Bank.

20. Amounts Due to Customers

The amounts due to customers include the following:

	30 June 2011	***31 December 2010***	***31 December 2009***	***31 December 2008***
Current accounts	886,122	864,327	559,987	612,502
Time deposits	1,193,320	1,140,371	712,483	580,622
Promissory notes issued	149,063	21,610	660	5
Amounts due to customers	**2,228,505**	**2,026,308**	**1,273,130**	**1,193,129**
Held as security against letters of credit and guarantees (Note 22)	**25,016**	**20,336**	**56,758**	**70,441**

(Thousands of Georgian Lari)

20. Amounts Due to Customers (continued)

As at 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008, promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. Average effective maturity of the notes comprises 9 months (2010: 10 months, 2009: 9 months, 2008: 3 months).

At 30 June 2011, amounts due to customers of GEL 504,261 (23%) were due to the 10 largest customers (2010: GEL 363,420 (18%), 2009: 217,264 (17%), 2008: GEL 323,662 (27%)).

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

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Private enterprises	1,065,255	964,150	579,509	627,054
Individuals	888,764	894,312	637,789	495,747
State and budget organizations	274,486	167,846	55,832	70,328
Amounts due to customers	**2,228,505**	**2,026,308**	**1,273,130**	**1,193,129**

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

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Individuals	888,764	894,312	637,789	495,747
Trade and services	560,056	421,138	273,850	296,115
State and budget organizations	274,486	167,846	55,832	70,328
Energy	176,941	256,275	116,810	134,275
Construction and development	150,919	93,827	79,082	40,146
Mining and processing	86,211	113,283	27,638	16,364
Transport and communication	36,607	35,226	47,166	70,806
Agriculture	17,550	21,379	13,588	8,426
Other	36,971	23,022	21,375	60,922
Amounts due to customers	**2,228,505**	**2,026,308**	**1,273,130**	**1,193,129**

21. Equity

Share capital

As at 30 June 2011, authorized share capital comprised 43,308,125 common shares, of which 31,360,322 were issued and fully paid (2010: 43,308,125 common shares, of which 31,344,860 were issued and fully paid, 2009: 43,308,125 common shares, of which 31,306,071 were issued and fully paid, 2008: 39,835,619 common shares, of which 31,253,283 were issued and fully paid). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 30 June 2011 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2009	**31,306,071**	**31,306**
Increase in share capital arising from share-based payments (Note 29)	18,395	18
30 June 2010 (unaudited)	**31,324,466**	**31,324**
31 December 2010	**31,344,860**	**31,345**
Increase in share capital arising from share-based payments (Note 29)	15,462	15
30 June 2011	**31,360,322**	**31,360**

(Thousands of Georgian Lari)

21. Equity (continued)

Share capital (continued)

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2007	**27,154,918**	**27,155**
Increase in share capital arising from issuance of GDRs	4,000,000	4,000
Increase in share capital arising from business combinations	89,000	89
Increase in share capital arising from share-based payments (Note 29)	9,365	9
31 December 2008	**31,253,283**	**31,253**
Increase in share capital arising from share-based payments (Note 29)	52,788	53
31 December 2009	**31,306,071**	**31,306**
Increase in share capital arising from share-based payments (Note 29)	38,789	39
31 December 2010	**31,344,860**	**31,345**

Share capital of the Group was paid by the shareholders in Georgian Lari and they are entitled to dividends in Georgian Lari. Net income for the six months ended 30 June 2011 attributable to ordinary shareholders of the Bank comprise GEL 63,645 (30 June 2010 (unaudited): net income of GEL 36,248, 31 December 2010: net income of GEL 83,640, 31 December 2009: net loss of GEL 91,370, 2008: net income of GEL 3,897). Net income from continuing operations for the six months ended 30 June 2011 attributable to ordinary shareholders comprise GEL 75,892 (30 June 2010 (unaudited): net income of GEL 36,248, 31 December 2010: net income of GEL 83,640, 31 December 2009: net loss of GEL 91,370, 31 December 2008: net income of GEL 3,897). At 30 June 2011 weighted average number of ordinary shares outstanding during the period was 29,934,352 (30 June 2010 (unaudited): 30,091,725, 31 December 2010: 30,037,041, 31 December 2009: 30,494,397, 31 December 2008: 30,160,451). At 30 June 2011 the diluted number of ordinary shares was 33,408,966 (30 June 2010 (unaudited): 33,566,338, 31 December 2010: 33,511,655, 31 December 2009: 30,494,397, 31 December 2008: 30,160,451). The basic and diluted earnings per share amounted to GEL 2.1262 and GEL 2.0178, respectively (30 June 2010 (unaudited): GEL 1.2046 and GEL 1.1996, respectively, 31 December 2010: GEL 2.7846 and GEL 2.7388, 31 December 2009: both basic and diluted loss per share amounted to GEL 2.9963, 31 December 2008: both basic and diluted earnings per share amounted to GEL 0.1292). The basic and diluted earnings per share from continuing operations amounted to GEL 2.5353 and GEL 2.3844, respectively (30 June 2010 (unaudited): GEL 1.2046 and GEL 1.1996, respectively, 31 December 2010: GEL 2.7846 and GEL 2.7388, 31 December 2009: both basic and diluted loss per share amounted to GEL 2.9963, 31 December 2008: both basic and diluted earnings per share amounted to GEL 0.1292). The 3,474,614 potential shares underlying the convertible debt instruments held by the Group as at 30 June 2011 (Note 19) were treated as dilutive, because their conversion would decrease earnings per share from continuing operations, as prescribed in IAS 33 – "Earnings per share". This conversion would also reduce the Group's interest expenses on these debt instruments and increase the six months ended 30 June 2011 total profit attributable to ordinary shareholders of the Bank by GEL 3,768 to a total of GEL 67,413, increase the six months ended 30 June 2011 profit attributable to ordinary shareholders of the Bank from continuing operations by GEL 3,768 to a total of GEL 79,660 and increase year end 2010 profit attributable to ordinary shareholders of the Bank by GEL 8,143 to a total of GEL 91,783.

Treasury shares

Treasury shares of GEL 990 as at 30 June 2011 comprise the Bank's shares owned by the Bank and its subsidiaries (2010: GEL 1,072, 2009: GEL 668, 2008: GEL 890). Purchases and sales of treasury shares were conducted by the Bank's subsidiaries in the open market: JSC BG Capital, BG Trading LLC, Galt and Taggart Holdings Limited LLC, GC Holdings LLC and JSC Insurance Company Aldagi BCI.

Treasury shares amounting to GEL 438 as at 30 June 2011 (2010: GEL 438, 2009: GEL 1,009, 2008: GEL 1,128) are kept by Abacus Corporate Trustee Limited, acting as the trustee of the Bank.

During the six months ended 30 June 2011, 15,462 ordinary shares of GEL 15 par value and additional paid-in capital of GEL 288 have been vested as compensation to top management (six months ended 30 June 2010 (unaudited): 18,395 ordinary shares of GEL 18 par value and additional paid-in capital of GEL 177, year ended 31 December 2010: 38,789 ordinary shares of GEL 39 par value and additional paid-in capital of GEL 523, year ended 31 December 2009: 52,788 ordinary shares of GEL 53 par value and additional paid-in capital of GEL 430, year ended 31 December 2008: 9,365 ordinary shares of GEL 9 par value and additional paid-in capital of GEL 470).

(Thousands of Georgian Lari)

21. Equity (continued)

Dividends

On 15 June 2011, the annual general meeting of shareholders of JSC Bank of Georgia declared 2011 dividends comprising Georgian Lari 0.3 per share, based on 2010 audited financial results. The declaration is effective from 1 July 2011. Payment date was set on 18 July 2011.

No dividends were declared nor paid during 2010, 2009 and 2008.

Nature and purpose of other reserves

Revaluation reserve for property and equipment and investment properties
The revaluation reserve for property and equipment and investment properties is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. The reserve is also used to record increases in the fair value of those investment properties that were reclassified from land or building in prior years and for which the first appreciation was to be recorded in equity.

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

Unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries
This reserve records unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries.

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

		Foreign currency translation reserve
At 31 December 2009		**(29,126)**
Loss from revaluation of open currency position exposure through investments in subsidiaries	(7,801)	
Gain from translation of non-monetary items from functional currency into presentation currency	18,181	
Gain recognized from currency translation differences from continuing operations, recognised in other comprehensive income		10,380
At 30 June 2010 (unaudited)		**(18,746)**
At 31 December 2010		**(24,010)**
Loss from revaluation of open currency position exposure through investments in subsidiaries	(27,737)	
Loss from translation of non-monetary items from functional currency into presentation currency	(14,313)	
Loss recognized from currency translation differences from continuing operations, recognised in other comprehensive income		(42,050)
Foreign currency gain from discontinued operations (disposal of subsidiary) (Note 27)		26,130
At 30 June 2011		**(39,930)**

	Foreign currency translation reserve
31 December 2007	**5,454**
Currency translation loss recognised in other comprehensive loss	(22,435)
31 December 2008	**(16,981)**
Currency translation loss recognised in other comprehensive loss	(12,145)
31 December 2009	**(29,126)**
Currency translation gain recognised in other comprehensive income	5,116
31 December 2010	**(24,010)**

Loss from revaluation of open currency position exposure through investments in subsidiaries is a result of difference between the historical cost of the amount of investment in foreign subsidiary and the total outstanding shareholders equity of the same foreign subsidiary translated into the presentation currency (Georgian Lari) at the exchange rate effective as at the reporting date.

(Thousands of Georgian Lari)

21. Equity (continued)

Nature and purpose of other reserves (continued)

For the six months ended 30 June 2011, six months ended 30 June 2010 and years ended 31 December 2010, 31 December 2009 and 31 December 2008, gains (losses) from devaluation of open foreign currency positions mostly comprise losses incurred on depreciation of Belarusian Ruble denominated total shareholders' equity of JSC Belarusky Narodny Bank and depreciation of Ukrainian Hryvnia denominated total shareholders' equity of JSC BG Bank, both against the Georgian Lari.

Foreign currency gain from disposal of subsidiary (JSC BG Bank) comprises a reclassification of accumulated foreign currency translation differences incurred during prior years, from other comprehensive income statement to the income statement as prescribed by IAS 27.34.

Movements in other reserves during the six months ended 30 June 2011 and the six months ended 30 June 2010 and years ended 31 December 2010, 31 December 2009 and 31 December 2008 are presented in the statements of other comprehensive income.

22. Commitments and Contingencies

Legal

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

Financial commitments and contingencies

As at 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008 the Group's financial commitments and contingencies comprised the following:

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Credit-related commitments				
Guarantees issued	388,108	374,230	240,613	304,906
Undrawn loan facilities	120,410	138,057	76,999	90,023
Letters of credit	56,043	58,779	30,038	32,547
	564,561	**571,066**	**347,650**	**427,476**
Operating lease commitments				
Not later than 1 year	6,816	7,016	6,281	5,874
Later than 1 year but not later than 5 years	11,965	13,984	13,396	12,832
Later than 5 years	4,295	6,037	6,497	5,993
	23,076	**27,037**	**26,174**	**24,699**
Capital expenditure commitments	**29,845**	**39,523**	**9,309**	**19,851**
Less – Provisions (Note 17)	(8)	(4,407)	(2,126)	(4,263)
Less – Cash held as security against letters of credit and guarantees (Note 20)	(25,016)	(20,336)	(56,758)	(70,441)
Financial commitments and contingencies, net	**592,458**	**612,883**	**324,249**	**397,322**

As at 30 June 2011 the capital expenditures represented the commitment for purchase of property and capital repairs of GEL 21,384 and software and other intangible assets of GEL 8,461. As at 31 December 2010 the capital expenditures represented the commitment for purchase of property and capital repairs of GEL 32,311 and software and other intangible assets of GEL 7,212. As of 31 December 2009 the capital expenditures represented the commitment for purchase of property and capital repairs of GEL 1,512 and software and other intangible assets of GEL 7,797. As of 31 December 2008 the capital expenditures represented the commitment for purchase of property GEL 2,132, equipment of GEL 4,721 and software and other intangible assets of GEL 12,998.

(Thousands of Georgian Lari)

23. Net Fee and Commission Income

	For the six months ended 30 June		For the year ended 31 December		
	2011	*2010*	*2010*	*2009*	*2008*
		Unaudited			
Settlements operations	28,630	18,825	50,511	33,907	33,659
Guarantees and letters of credit	7,624	6,068	12,362	10,764	8,625
Cash operations	4,367	4,156	8,061	6,145	6,947
Advisory	1,175	84	1,129	578	2,032
Currency conversion operations	880	270	677	1,024	1,766
Brokerage service fees	459	530	545	1,891	2,626
Other	501	3,708	980	10,290	7,848
Fee and commission income	**43,636**	**33,641**	**74,265**	**64,599**	**63,503**
Settlements operations	(5,981)	(3,462)	(7,324)	(4,299)	(3,974)
Cash operations	(1,628)	(406)	(780)	(1,619)	(564)
Guarantees and letters of credit	(682)	(1,021)	(1,164)	(2,106)	(2,038)
Currency conversion operations	(634)	(4)	(14)	(28)	(430)
Insurance brokerage service fees	(355)	(475)	(646)	(534)	(5,965)
Other	(386)	(981)	(917)	(988)	(563)
Fee and commission expense	**(9,666)**	**(6,349)**	**(10,845)**	**(9,574)**	**(13,534)**
Net fee and commission income	**33,970**	**27,292**	**63,420**	**55,025**	**49,969**

24. Net Insurance Revenue

Net insurance premiums earned, net insurance claims incurred and respective net insurance revenue for the six months ended 30 June 2011 and 30 June 2010, and years ended 31 December 2010, 31 December 2009 and 31 December 2008 comprised:

	For the six months ended 30 June		For the year ended 31 December		
	2011	*2010*	*2010*	*2009*	*2008*
		Unaudited			
Life insurance contracts premium written	1,582	1,673	2,562	2,865	3,456
General insurance contracts premium written	32,639	31,325	53,744	56,694	53,201
Total premiums written	**34,221**	**32,998**	**56,306**	**59,559**	**56,657**
Gross change in life provision	(279)	(737)	96	(377)	86
Gross change in general insurance contracts unearned premium provision	(5,990)	(5,938)	(1,001)	1,690	(6,311)
Total gross premiums earned on insurance contracts	**27,952**	**26,323**	**55,401**	**60,872**	**50,432**
Reinsurers' share of life insurance contracts premium written	(448)	(759)	(1,321)	(1,086)	(981)
Reinsurers' share of general insurance contracts premium written	(5,399)	(6,652)	(11,038)	(9,502)	(15,271)
Reinsurers' share of change in life provision	(146)	321	(57)	254	(4)
Reinsurers' share of change in general insurance contracts unearned premium provision	1,164	2,594	1,576	(5,061)	1,735
Total reinsurers' share of gross earned premiums on insurance contracts	**(4,829)**	**(4,496)**	**(10,840)**	**(15,395)**	**(14,521)**
Net insurance premiums earned	**23,123**	**21,827**	**44,561**	**45,477**	**35,911**

(Thousands of Georgian Lari)

24. Net Insurance Revenue (continued)

	For the six months ended 30 June		*For the year ended 31 December*		
	2011	*2010*	*2010*	*2009*	*2008*
		Unaudited			
Life insurance claims paid	(258)	(443)	(1,272)	(830)	(455)
General insurance claims paid	(14,776)	(14,000)	(28,493)	(43,137)	(30,175)
Total insurance claims paid	**(15,034)**	**(14,443)**	**(29,765)**	**(43,967)**	**(30,630)**
Reinsurers' share of life insurance claims paid	111	379	988	523	351
Reinsurers' share of general insurance claims paid	629	576	1,497	12,356	5,443
Gross change in total reserves for claims	360	(1,548)	(1,486)	12,563	(6,053)
Reinsurers' share of change in total reserves for claims	(93)	1,587	868	(11,577)	3,994
Net insurance claims incurred	**(14,027)**	**(13,449)**	**(27,898)**	**(30,102)**	**(26,895)**
Net insurance revenue	**9,096**	**8,378**	**16,663**	**15,375**	**9,016**

25. Net Gains from Foreign Currency Translation Differences

Net gains from foreign currency translation differences for the six months ended 30 June 2011 include GEL 20,054 thousand of net foreign currency gain from hedging the Group's short position on Belarusian Ruble denominated shareholders' equity of stand-alone JSC Belarusky Narodny Bank. Devaluation of Belarusian Ruble depreciated Lari equivalent value of JSC Belarusky Narodny Bank shareholders' equity, loss from which has been recognized through other comprehensive income statement. However, the Bank had long position for the similar notional value of Belarusian Ruble held through currency swap agreement with the National Bank of the Republic of Belarus. Gain from revaluation of this position has been recognized through profit or loss.

26. Salaries and Other Employee Benefits, and General and Administrative Expenses

	For the six months ended 30 June		*For the year ended 31 December*		
	2011	*2010*	*2010*	*2009*	*2008*
		Unaudited			
Salaries and bonuses	(56,805)	(51,019)	(103,352)	(96,745)	(104,039)
Social security costs	(917)	(1,738)	(1,199)	(3,760)	(4,728)
Salaries and other employee benefits	**(57,722)**	**(52,757)**	**(104,551)**	**(100,505)**	**(108,767)**
Marketing and advertising	(7,079)	(5,139)	(12,534)	(9,847)	(12,251)
Occupancy and rent	(4,318)	(5,157)	(10,082)	(10,431)	(12,811)
Repairs and maintenance	(3,322)	(2,650)	(6,205)	(5,313)	(5,441)
Legal and other professional services	(2,757)	(2,427)	(6,149)	(7,010)	(6,391)
Operating taxes	(2,364)	(1,923)	(4,188)	(4,960)	(3,496)
Communication	(2,157)	(2,418)	(4,975)	(5,482)	(6,117)
Office supplies	(1,778)	(1,518)	(3,786)	(2,484)	(2,813)
Travel expenses	(1,252)	(958)	(1,975)	(2,019)	(2,948)
Security	(1,180)	(1,703)	(3,055)	(4,647)	(4,951)
Corporate hospitality and entertainment	(844)	(485)	(1,709)	(1,307)	(1,393)
Banking services	(377)	(410)	(756)	(623)	(2,293)
Penalties	(326)	(38)	(178)	(510)	(745)
Personnel training and recruitment	(267)	(162)	(416)	(177)	(545)
Insurance	(115)	(833)	(678)	(399)	(2,886)
Other	(2,446)	(2,612)	(4,314)	(2,130)	(3,568)
General and administrative expenses	**(30,582)**	**(28,433)**	**(61,000)**	**(57,339)**	**(68,649)**

(Thousands of Georgian Lari)

26. Salaries and Other Employee Benefits, and General and Administrative Expenses (continued)

Salaries and bonuses include GEL 7,441, GEL 4,740 and GEL 8,920, GEL 10,530 and GEL 7,820 of the Executives' Equity Compensation Plan costs six months ended 30 June 2011, six months ended 30 June 2010 and years ended 31 December 2010, 31 December 2009 and 31 December 2008, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 29 and 33). Executives' Equity Compensation Plan costs for the six months ended 30 June 2011 include GEL 2,906 of one-time correction of the respective withholding tax of prior years based on the new tax ruling obtained by the Bank from tax authorities in Georgia.

27. Net Loss from Discontinued Operations

In February 2011 the Group declared actual disposal of its 80% equity interest in JSC BG Bank, its subsidiary in Ukraine.

The total consideration including brokerage fees paid to JSC BG Capital, the Bank's wholly owned brokerage subsidiary, amounted to US$9.6 million (GEL 16.8 million), of which US$5.0 million (GEL 8.9 million) has been paid as at the date of this announcement and the remaining US$4.6 million (GEL 8.2 million) is to be paid in 1.5 years from the disposal date.

The Bank retains 19.4% equity interest in PJSC Bank Pershyi (formerly known as JSC BG Bank).

Net loss from this disposal recognized in the consolidated income statement for the period through "Net loss from discontinued operations" is analyzed as follows:

	For the six months ended 30 June 2011
Reclassification of foreign currency translation loss from devaluation of Ukrainian Hryvnia accumulated through other comprehensive income during prior periods	(29,126)
Realized loss on disposal comprising net difference between the adjusted carrying value of the investment in 80% of JSC BG Bank as at the date of disposal and the fair value of respective consideration received	(6,308)
Immediate corporate income tax benefit recognized from the statutory loss on disposal of 80% stake in JSC BG Bank (Note 16)	23,187
Net loss from discontinued operations	**(12,247)**
Earnings per share for discontinued operations:	
– basic loss per share from discontinued operations	(0.4092)
– diluted loss per share from discontinued operations	(0.3666)

Gain recognized in the statement of comprehensive income for the period through "Other comprehensive gain from discontinued operations" is analyzed as follows:

	For the six months ended 30 June 2011
Revaluation reserve of property and equipment of the disposed subsidiary (Note 14)	(2,501)
Reclassification of foreign currency translation loss from depreciation of Ukrainian Hryvnia accumulated through other comprehensive income during prior periods (Note 21)	29,126
Foreign currency translation loss from depreciation of Ukrainian Hryvnia during current period (Note 21)	(2,996)
Income tax relating to components of other comprehensive income (Note 16)	625
Other comprehensive gain from discontinued operations	**24,254**
Total comprehensive income for the period from discontinued operations	**12,007**

(Thousands of Georgian Lari)

27. Net Loss from Discontinued Operations (continued)

Total assets and total liabilities of JSC BG Bank as at 31 December 2010 and the results for the six months ended 30 June 2010 and 30 June 2011 were as follows:

	As at 31 December 2010
Cash and cash equivalents	34,588
Total Assets	225,903
Total Liabilities	198,609
Net Assets	**27,294**

	For the six months ended 30 June	
	2011	*2010 (unaudited)*
Loss for the period	(106)	(1,426)

28. Other Non-operating Income and Other Non-operating Expenses

Other non-operating expenses for the six months ended 30 June 2011, six months ended 30 June 2010 and year ended 31 December 2010 comprise GEL 5,452, GEL 795 (unaudited) and GEL 545, respectively, of losses incurred on repurchase of the Bank's own Euro Bonds (i.e. repurchase of amounts due to BG Finance).

Other non-operating income for the year ended 31 December 2009 of GEL 5,308, also represents income on repurchase of the Bank's own Euro Bonds.

29. Share-based Payments

Executives' Equity Compensation Plan

Abacus Corporate Trustee Limited (the "Trustee") acts as the trustee of the Bank's Executives' Equity Compensation Plan ("EECP").

In May 2008 the Bank's Supervisory Board resolved to recommend to the Trustee to award 172,000 Bank's ordinary shares in the form of restricted GDRs to the Group's 22 executives pursuant to the EECP in respect of the year ended 31 December 2007. The awards are subject to three year vesting, with a continuous employment being the only vesting condition. The Group considers 21 February 2008 as the grant date for 54,000 of the Bank of Georgia shares in the form of restricted GDRs and 6 May 2008 grant date for the remaining 118,000 of the Bank's ordinary shares in the form of restricted GDRs. The Bank estimates that the fair value of the shares on 21 February 2008 was Georgian Lari 39.72 per share and on 6 May 2008 – Georgian Lari 33.68 per share.

In February 2009 the Bank's Supervisory Board resolved to recommend to the Trustee to award 306,500 Bank's ordinary shares in the form of restricted GDRs to the Group's 17 executives pursuant to the EECP in respect of the year ended 31 December 2008. The awards are subject to three year vesting, with a continuous employment being the only vesting condition. The Group considers 12 February 2009 as the grant date. The Bank estimates that the fair value of the shares on 12 February 2009 was Georgian Lari 5.02 per share.

In February 2010 the Bank's Supervisory Board resolved to recommend to the Trustee to award 432,495 Bank's ordinary shares in the form of restricted GDRs to the Group's 19 executives pursuant to the EECP in respect of the year ended 31 December 2009. The awards are subject to three year vesting, with a continuous employment being the only vesting condition. The Group considers 18 February 2010 as the grant date. The Bank estimates that the fair value of the shares on 18 February 2010 was Georgian Lari 17.29 per share.

Additionally, in March 2010 Deputies of the CEO of the Bank and in May 2010 CEO of the Bank signed a three-year guaranteed share-based compensation agreement with the Bank for the total of 915,000 GDRs. Total amount of GDRs guaranteed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2011, of which each award will be subject to four-year vesting period. The Group considers 29 March 2010 as the grant date for the awards of the Deputies and 25 May 2010 as the grant date for the award of the CEO. The Bank estimates that the fair value of the shares on 29 March 2010 was Georgian Lari 18.48 per share and the fair value of shares on 25 May 2010 was Georgian Lari 18.16.

(Thousands of Georgian Lari)

29. Share-based Payments (continued)

In February 2011 the Supervisory Board resolve to award 143,500 ordinary shares in the form of GDRs to the members of the Management Board and 123,800 ordinary shares in the form of GDRs to the Groups' 24 executives. Shares awarded to the Management Board are subject to three-year vesting, while shares awarded to the other 24 executives are subject to three vesting, with a continuous employment being the only vesting condition for both awards. The Group considers 21 February 2011 as the grant date. The Bank estimates that the fair value of the shares on 21 February 2011 was Georgian Lari 35.86 per share.

One-off Award

In August 2009 the Bank's Supervisory Board resolved to buy through its brokerage subsidiary the Bank's 420,000 ordinary shares in the form of restricted GDRs and award them to the Group's 21 executives to reinforce long-term motivation of these executives. The awards are subject to three year cliff-vesting, with a continuous employment being the only vesting condition. The Group considers 10 August 2009 as the grant date. The Bank estimates that the fair value of the shares on 10 August 2009 was Georgian Lari 9.61 per share.

Top Grant, Special Grant and Annual Grants to top executives

In August 2007 the Bank's Supervisory Board resolved to propose to the Trustee of the Bank's EECP the award of shares of the Bank in the form of restricted GDRs to the top three executives of the Bank (top two from January 1, 2008 as one resigned before 31 December 2007). Each award will vest fully, or partially, or will not vest at all, at the third anniversary of the date of the grant, depending solely on clearly defined and measurable market-based condition. The awards of each executive comprise top grant and annual grant.

Top grant is a one-time award and was given in 2007 only and its value is restricted by the 200% of the annual base salary of the respective executive in 2007. Annual grant is awarded every year during the three consecutive years' period that such executive is employed by the Bank. In 2007 its value was restricted by 100% of the annual base salary of the respective executive during the vesting period. Based on the changes approved by the Bank's Supervisory Board, the value of the annual grant in 2008 was restricted by the 200%.

The Bank estimated the annual expense of share-based compensation related to 2007 top and annual grants equal 300% of the annual base salary of each executive in 2007.

Based on the Bank's share price performance calculated by an independent consultant the Bank estimated the annual expense of share-based compensation related to 2008 annual grant equals to nil.

In September 2009 the Bank's Supervisory Board resolved to adopt changes to the original version of the annual grant approved in August 2007. Namely, the 2009 Annual Grant comprising 245,773 GDRs was granted to the two top executives of the Bank without market-based vesting conditions, with continuous employment being the only 3-year, cliff-vesting condition. The Group considers 11 September 2009 as the grant date. The Bank estimates that the fair value of the shares on 11 September 2009 was Georgian Lari 12.83 per share.

By the same resolution, in September 2009, the Bank's Supervisory Board resolved to award a Special Grant to the same two executives comprising 68,139 GDRs. The award is subject to two year vesting, with a continuous employment being the only vesting condition. The Group considers 11 September 2009 as the grant date. The Bank estimates that the fair value of the shares on 11 September 2009 was Georgian Lari 12.83 per share.

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 34.21 per share in six months ended 30 June 2011 (six months ended 30 June 2010: Georgian Lari 17.63, year ended 31 December 2010: Georgian Lari 17.96 per share, year ended 31 December 2009: Georgian Lari 9.46, year ended 31 December 2008: Georgian Lari 33.42).

The Group's total share-based payment expenses for the six months ended 30 June 2011 comprised GEL 7,441 (six months ended 30 June 2010: GEL 4,740, year ended 31 December 2010: GEL 8,920, year ended 31 December 2009: 10,530, year ended 31 December 2008: GEL 7,820).

(Thousands of Georgian Lari)

29. Share-based Payments (continued)

Summary (continued)

Below is the summary of the key share-based payments related data:

	For the six months ended 30 June		*For the year ended 31 December*		
Ordinary shares	***2011***	***2010*** *Unaudited*	***2010***	***2009***	***2008***
Number of shares awarded	15,462	18,395	38,789	128,908	29,298
– *Among them, to supervisory board members*	*15,462*	*18,395*	*38,789*	*55,158*	*16,010*
Number of shares vested	15,462	18,395	38,789	52,788	9,365
Weighted average value at grant date, per share (GEL in full amount)	19.34	19.95	17.20	9.04	41.44
Value at grant date, total (GEL)	**299**	**367**	**667**	**1,165**	**1,214**
Expense recognized during the period (GEL)	**(299)**	**(367)**	**(667)**	**(1,390)**	**(1,017)**
GDRs					
Number of GDRs awarded	276,448	693,922	1,341,918	1,130,412	258,139
– *Among them, to top management**	*20,000*	*221,922*	*461,922*	*463,912*	*198,139*
Number of GDRs vested	112,148	249,000	610,000	153,000	282,606
Weighted average value at grant date, per share (GEL in full amount)	35.04	17.57	17.99	9.51	32.51
Value at grant date, total (GEL)	**9,686**	**12,192**	**24,135**	**10,747**	**8,391**
Expense recognized during the period (GEL)	**(7,142)**	**(4,373)**	**(8,253)**	**(9,140)**	**(6,803)**
All instruments					
Total number of equity instruments awarded	291,910	712,317	1,380,707	1,259,320	287,437
– *Among them, to top management* and supervisory board members*	*35,462*	*240,317*	*500,711*	*519,070*	*214,149*
Total number of equity instruments vested	127,610	267,395	648,789	205,788	291,971
Weighted average value at grant date, per share (GEL in full amount)	34.21	17.63	17.96	9.46	33.42
Value at grant date, total (GEL)	**9,985**	**12,559**	**24,802**	**11,912**	**9,605**
Total expense recognized during the period (GEL) (Notes 26 and 33)	**(7,441)**	**(4,740)**	**(8,920)**	**(10,530)**	**(7,820)**

*** The Chairman and the Chief Executive Officer for the periods prior to 1 January 2011 and the Chief Executive Officer only since 1 January 2011.**

30. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

Supervisory Board
The Supervisory Board is ultimately responsible for overall supervision of all risks and respective strategic decisions as well as for the ultimate approval process of main risk management policies and strategies.

(Thousands of Georgian Lari)

30. Risk Management (continued)

Introduction (continued)

Audit Committee
The Audit Committee is an independent body and is directly monitored by the Supervisory Board. It has the overall responsibility for developing and implementation of overall risk assessment and risk mitigation strategies, principles, frameworks, policies and limits. Audit Committee is responsible for the fundamental risk issues and manages and monitors relevant risk decisions covering, but not limited to: macroeconomic and environmental risks, general control environment, manual and application controls, risks of intentionally or unintentional misstatements, risk of fraud or misappropriation of assets, information security, anti-money laundering, information technology risks, etc.

Management Board
The Management Board has the responsibility to monitor and manage entire risk process within the Group, on a regular basis, by assigning tasks, creating different executive committees, designing and setting up risk management policies and procedures as well as respective guidelines and controlling their implementation and performance of relevant departments and committees.

Bank Asset and Liability Management Committee
The Bank's Asset and Liability Management Committee ("ALCO") is the core risk management body. It is responsible for managing the Bank's assets and liabilities, all risks associated with them as well as overall financial structure of the Group. It is also primarily responsible for the funding, capital adequacy risk, liquidity risks and market risks of the Bank.

Internal Audit
Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is Base Case (forecast under normal business conditions) and the other two are Troubled and Distressed Scenarios, which are worse and the worst case scenarios, respectively, that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate credit exposures and their limits, exceptions to those limits, liquidity ratios and liquidity limits, market risk ratios and their limits, changes to the risk profile. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Management Board receives comprehensive Credit Risk report and ALCO report once a month. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. While these are intended for hedging, these do not qualify for hedge accounting.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

(Thousands of Georgian Lari)

30. Risk Management (continued)

Introduction (continued)

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or these counterparties represent related parties to each other, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio of both, financial assets as well as financial liabilities. Identified concentrations of credit risks or liquidity / repayment risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

		Gross maximum exposure			
	Notes	***30 June 2011***	***31 December 2010***	***31 December 2009***	***31 December 2008***
Cash and cash equivalents (excluding cash on hand)	7	234,889	449,835	203,028	251,358
Amounts due from credit institutions	8	308,067	116,469	64,620	81,403
Loans to customers	9	2,375,110	2,351,697	1,661,331	2,039,022
Finance lease receivables	10	64,791	14,419	16,896	41,605
Investment securities:					
– Available-for-sale	11	392,051	285,628	6,990	12,014
– Held-to-maturity	11	21	21	249,196	22,845
Other assets – derivative financial assets	18	36,068	2,933	1,129	255
		3,410,997	**3,221,002**	**2,203,190**	**2,448,502**
Financial commitments and contingencies	22	539,537	546,323	288,766	352,772
Total credit risk exposure		**3,950,534**	**3,767,325**	**2,491,956**	**2,801,274**

(Thousands of Georgian Lari)

30. Risk Management (continued)

Credit risk (continued)

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group through internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Group's credit rating system.

		Neither past due nor impaired				
30 June 2011	*Notes*	*High grade*	*Standard grade*	*Sub-standard grade*	*Past due or individually impaired*	*Total*
Amounts due from credit institutions	8	307,221	846	–	–	308,067
Loans to customers:	9					
Corporate lending		899,684	150,018	19,175	293,977	1,362,854
Consumer lending		390,660	11,515	804	25,617	428,596
Residential mortgages		301,194	14,227	3,209	39,419	358,049
Micro loans		257,996	3,888	2,016	9,459	273,359
Gold – pawn loans		73,703	–	–	–	73,703
Other		247	–	–	–	247
		1,923,484	**179,648**	**25,204**	**368,472**	**2,496,808**
Finance lease receivables	10	61,473	453	–	3,494	65,420
Investment securities:						
Available-for-sale	11	388,842	–	–	3,209	392,051
Held-to-maturity	11	21	–	–	–	21
		388,863	**–**	**–**	**3,209**	**392,072**
Total		**2,681,041**	**180,947**	**25,204**	**375,175**	**3,262,367**

		Neither past due nor impaired				
31 December 2010	*Notes*	*High grade*	*Standard grade*	*Sub-standard grade*	*Past due or individually impaired*	*Total*
Amounts due from credit institutions	8	115,622	847	–	–	116,469
Loans to customers:	9					
Corporate lending		924,320	254,675	42,449	203,106	1,424,550
Residential mortgages		334,430	13,841	703	34,641	383,615
Consumer lending		324,474	13,889	9,251	62,172	409,786
Micro loans		220,820	4,317	3,636	9,689	238,462
Gold – pawn loans		66,749	–	–	–	66,749
Other		2,168	696	7	1,200	4,071
		1,872,961	**287,418**	**56,046**	**310,808**	**2,527,233**
Finance lease receivables	10	10,533	311	872	3,291	15,007
Investment securities:						
Available-for-sale	11	285,628	–	–	–	285,628
Held-to-maturity	11	21	–	–	–	21
		285,649	**–**	**–**	**–**	**285,649**
Total		**2,284,765**	**288,576**	**56,918**	**314,099**	**2,944,358**

(Thousands of Georgian Lari)

30. Risk Management (continued)

Credit risk (continued)

31 December 2009	Notes	Neither past due nor impaired: High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	63,703	917	–	–	64,620
Loans to customers:	9					
Corporate lending		447,481	122,983	94,215	275,135	939,814
Residential mortgages		267,593	26,133	9,772	83,917	387,415
Consumer lending		227,765	26,748	1,915	76,109	332,537
Micro loans		76,003	9,506	6,884	7,588	99,981
Gold – pawn loans		62,829	–	–	–	62,829
Other		–	3,221	352	1,668	5,241
		1,081,671	**188,591**	**113,138**	**444,417**	**1,827,817**
Finance lease receivables	10	7,913	11,441	115	4,571	24,040
Investment securities:						
Available-for-sale	11	6,172	–	–	818	6,990
Held-to-maturity	11	249,196	–	–	–	249,196
		255,368	**–**	**–**	**818**	**256,186**
Total		**1,408,655**	**200,949**	**113,253**	**449,806**	**2,172,663**

31 December 2008	Notes	Neither past due nor impaired: High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	81,403	–	–	–	81,403
Loans to customers:	9					
Corporate lending		639,988	112,558	23,428	268,985	1,044,959
Residential mortgages		337,445	13,477	1,868	38,816	391,606
Consumer lending		381,299	42,126	11,576	61,196	496,197
Micro loans		129,666	4,894	5,182	11,571	151,313
Gold – pawn loans		46,374	–	–	–	46,374
Other		713	2,514	9,414	2,533	15,174
		1,535,485	**175,569**	**51,468**	**383,101**	**2,145,623**
Finance lease receivables	10	12,201	2,232	204	29,131	43,768
Investment securities:						
Available-for-sale	11	12,014	–	–	–	12,014
Held-to-maturity	11	22,845	–	–	–	22,845
		34,859	**–**	**–**	**–**	**34,859**
Total		**1,663,948**	**177,801**	**51,672**	**412,232**	**2,305,653**

Past due loans to customers, analyzed by age below, include those that are past due by not more than a few days. These loans are not impaired.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. Attributable risk ratings are assessed and updated regularly.

The credit risk assessment policy for non-past due and individually non-impaired financial assets has been determined by the Bank as follows:

A financial asset that is neither past due nor impaired for the reporting date, but historically used to be past due more less than 30 days is assessed as a financial asset with High Grade;

(Thousands of Georgian Lari)

30. Risk Management (continued)

Credit risk (continued)

A financial asset that is neither past due nor impaired for reporting date, but historically used to be past due more than 30 but less than 60 days is assessed as a financial asset with Standard Grade;

A financial asset that is neither past due nor impaired for reporting date, but historically used to be past due more than 60 days or borrower of this loan has at least an additional borrowing in past due more than 60 days as at reporting date is assessed as a financial asset with Sub-Standard Grade.

Aging analysis of past due but not impaired loans per class of financial assets

30 June 2011	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Corporate lending	3,508	681	663	17,461	22,313
Consumer lending	12,498	1	1	45	12,545
Residential mortgages	5,433	887	1,290	3,318	10,928
Micro-loans	1,499	–	–	–	1,499
Finance lease receivables	1,391	1,008	92	750	3,241
Total	**24,329**	**2,577**	**2,046**	**21,574**	**50,526**

31 December 2010	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Consumer lending	12,538	11	3	93	12,645
Corporate lending	2,925	–	2,115	5,290	10,330
Residential mortgages	6,967	1,387	275	1,956	10,585
Micro-loans	503	6	128	–	637
Other	–	144	84	–	228
Finance lease receivables	1,212	–	–	2,079	3,291
Total	**24,145**	**1,548**	**2,605**	**9,418**	**37,716**

31 December 2009	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Corporate lending	12,057	1,124	2,841	28,509	44,531
Micro-loans	615	4	–	9	628
Consumer lending	14,259	58	–	4	14,321
Residential mortgages	3,502	57	–	16	3,575
Other					
Finance lease receivables	1,461	9	–	–	1,470
Total	**31,894**	**1,252**	**2,841**	**28,538**	**64,525**

31 December 2008	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Corporate lending	12,107	4,937	6,990	15,118	39,152
Micro-loans	2,751	270	67	196	3,284
Consumer lending	21,375	764	336	2,469	24,944
Residential mortgages	6,887	6	–	86	6,979
Other	256	712	2,160	3,128	6,256
Finance lease receivables	–	46	–	24,380	24,426
Total	**43,376**	**6,735**	**9,553**	**45,377**	**105,041**

(Thousands of Georgian Lari)

30. Risk Management (continued)

Credit risk (continued)

See Notes 9 and 10 for more detailed information with respect to the allowance for impairment of loans to customers and finance lease receivables, respectively.

The Group specifically monitors performance of the loans with overdue payments in arrears for more than 90 days. Gross carrying value (i.e. carrying value before deducting any allowance for impairment) of such loans comprised GEL 78,420, GEL 117,580, GEL 139,954 and GEL 61,474 as at 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008, respectively.

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Loans to customers:				
Commercial lending	149,927	263,163	473,845	384,404
Residential mortgages	13,882	4,386	38,137	6,193
Consumer lending	856	2,092	26,624	19,384
Micro loans	1,499	4,664	7,540	5,952
Other	–	–	11	8,194
Financial lease receivables	1,807	1,882	2,349	3,173
Total	**167,971**	**276,187**	**548,506**	**427,300**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by any number of days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. Loans are considered to be individually impaired if they are past due by more than only a few days or there are clear indications that the borrower already faces business, financial or other type of problems that hinder its / his /her ability to serve contractual obligations with the Bank. Impairment for all such loans is assessed individually, rather than applying standard collective impairment rates based on just prior history of losses of the Bank.

Individually assessed allowances

For the loan loss allowance determination purposes the Group considers all individually significant loans and classifies them between being individually impaired or not impaired. Allowance for those individually significant loans that are determined to be individually impaired (see definition above) is determined through individual assessment of the associated credit risk by assigning proper credit rating. Allowance non-significant loan that are determined to be individually impaired (see definition above) are also individually assessed. Allowance for losses for individually significant loans that are determined not to be individually impaired is assessed through collective assessment approach described below. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, the timing of the expected cash flows and past history of the debt service of the borrower. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(Thousands of Georgian Lari)

30. Risk Management (continued)

Credit risk (continued)

Collectively assessed allowances

Allowances are assessed collectively for all loans (including but not limited to credit cards, residential mortgages, and unsecured consumer lending, commercial lending, etc.), both, significant as well as non-significant, where there is not yet objective evidence of individual impairment (see definition above) . Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes into account the impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year, depending on a product. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

The geographical concentration of the Group's assets and liabilities is set out below:

	30 June 2011				*31 December 2010*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	197,709	104,538	36,161	338,408	188,426	364,616	58,542	611,584
Amounts due from credit institutions	302,724	583	4,760	308,067	91,715	14,538	10,216	116,469
Loans to customers	2,322,412	–	52,698	2,375,110	2,135,962	8	215,727	2,351,697
Finance lease receivables	61,432	–	3,359	64,791	10,036	–	4,383	14,419
Investment securities:								
– available-for-sale	400,247	14	4,056	404,317	290,333	60	4,547	294,940
– held-to-maturity	21	–	–	21	21	–	–	21
All other assets	529,580	11,842	91,188	632,610	498,175	9,508	108,109	615,792
	3,814,125	**116,977**	**192,222**	**4,123,324**	**3,214,668**	**388,730**	**401,524**	**4,004,922**
Liabilities:								
Amounts due to customers	1,862,599	279,373	86,533	2,228,505	1,659,774	101,960	264,574	2,026,308
Amounts due to credit institutions	144,975	775,952	65,665	986,592	145,398	962,691	30,838	1,138,927
All other liabilities	133,592	3,490	19,384	156,466	135,794	4,232	6,320	146,346
	2,141,166	**1,058,815**	**171,582**	**3,371,563**	**1,940,966**	**1,068,883**	**301,732**	**3,311,581**
Net balance sheet position	**1,672,959**	**(941,838)**	**20,640**	**751,761**	**1,273,702**	**(680,153)**	**99,792**	**693,341**

	31 December 2009				*31 December 2008*			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	154,405	127,816	75,668	357,889	171,466	208,997	35,358	415,821
Amounts due from credit institutions	39,447	12,664	12,509	64,620	45,851	3,414	32,138	81,403
Loans to customers	1,520,174	–	141,157	1,661,331	2,008,652	–	30,370	2,039,022
Finance lease receivables	8,927	–	7,969	16,896	37,405	–	4,200	41,605
Investment securities:								
– available-for-sale	13,418	–	6,172	19,590	33,737	–	–	33,737
– held-to-maturity	249,196	–	–	249,196	22,845	–	–	22,845
All other assets	455,769	8,056	80,082	543,907	586,214	1,210	37,050	624,474
	2,441,336	**148,536**	**323,557**	**2,913,429**	**2,906,170**	**213,621**	**139,116**	**3,258,907**
Liabilities:								
Amounts due to customers	1,024,771	11,035	237,324	1,273,130	1,152,244	2,482	38,403	1,193,129
Amounts due to credit institutions	20,102	899,651	8,862	928,615	129,091	1,080,179	7,452	1,216,722
All other liabilities	85,588	8,958	18,721	113,267	118,978	7,211	4,018	130,207
	1,130,461	**919,644**	**264,907**	**2,315,012**	**1,400,313**	**1,089,872**	**49,873**	**2,540,058**
Net balance sheet position	**1,310,875**	**(771,108)**	**58,650**	**598,417**	**1,505,857**	**(876,251)**	**89,243**	**718,849**

(Thousands of Georgian Lari)

30. Risk Management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a stand-alone basis, based on certain liquidity ratios established by the NBG. As at 30 June and 31 December, these ratios were as follows:

	For the six months ended 30 June		***For the year ended 31 December***		
	2011, %	***2010, %***	***2010, %***	***2009, %***	***2008, %***
Average liquidity ratio	41.5%	37.4%	35.6%	36.5%	31.4%
Maximum Liquidity ratio	47.2%	44.5%	44.5%	45.7%	48.6%
Minimum Liquidity ratio	34.6%	30.8%	29.1%	21.9%	20.8%

Average liquidity ratio is calculated on stand-alone basis for JSC Bank of Georgia as annual average (arithmetic mean) of daily liquidity ratios computed as ratio of liquid assets to liabilities determined by National Bank of Georgia as follows:

Liquid assets – comprise cash, cash equivalents and other assets that have character to be immediately converted into cash. Those assets include investment securities issued by Georgian Government plus Certificates of Deposit issued by NBG and not including amounts due from credit institutions, other than inter-bank deposits, and/or debt securities of Governments and Central Banks of non-OECD countries, amounts in nostro accounts which are under lien, impaired inter-bank deposits, amounts on obligatory reserve with NBG that are pledged due to borrowings from NBG.

Liabilities – comprise sum of total balance sheet liabilities, less Amounts due to credit institutions that are to be exercised or settled later than six month from reporting date, plus off-balance sheet commitments with residual maturity subsequent to the reporting date of less than six months. Off-balance sheet commitments include all commitments except financial guarantees and letters of credit that are fully collateralized by cash covers in the Bank, and commitments due to dealing operations with foreign currencies. Maximum and minimum rates of liquidity ratio are taken from historical data of appropriate reporting years.

The Group also manages maturity matching of financial assets and financial liabilities and imposes a maximum limit on negative gaps compared to the Bank's stand-alone total regulatory capital calculated per NBG regulation. The ratios are assessed and monitored on a monthly basis and compared against set limits. In case of deviations amendment strategies / actions are discussed and approved by ALCO.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 30 June 2011	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to customers	1,503,630	649,274	165,169	12,556	2,330,629
Amounts due to credit institutions	223,776	200,684	480,795	432,095	1,337,350
Other liabilities	31,000	28,188	25,433	5,566	90,187
Total undiscounted financial liabilities	**1,758,406**	**878,146**	**671,397**	**450,217**	**3,758,166**

(Thousands of Georgian Lari)

30. Risk Management (continued)

Liquidity risk and funding management (continued)

Financial liabilities As at 31 December 2010	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to customers	1,394,442	528,346	153,963	8,859	2,085,610
Amounts due to credit institutions	151,404	145,753	780,504	530,547	1,608,208
Other liabilities	8,049	33,571	15,649	4,949	62,218
Total undiscounted financial liabilities	**1,553,895**	**707,670**	**950,116**	**544,355**	**3,756,036**

Financial liabilities As at 31 December 2009	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to customers	899,697	333,374	83,097	7,624	1,323,792
Amounts due to credit institutions	76,468	86,724	726,243	511,713	1,401,148
Other liabilities	18,079	22,921	7,468	3,856	52,324
Total undiscounted financial liabilities	**994,244**	**443,019**	**816,808**	**523,193**	**2,777,264**

Financial liabilities As at 31 December 2008	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to customers	869,050	266,417	74,947	4,712	1,215,126
Amounts due to credit institutions	291,471	131,625	922,928	259,148	1,605,172
Other liabilities	1,373	85	5	–	1,463
Total undiscounted financial liabilities	**1,161,894**	**398,127**	**997,880**	**263,860**	**2,821,761**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
30 June 2011	193,094	343,793	65,698	14,897	617,482
31 December 2010	245,684	290,662	76,464	24,816	637,626
31 December 2009	98,735	108,050	149,063	27,285	383,133
31 December 2008	187,311	94,245	166,843	23,627	472,026

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

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Georgian legislation, the Bank Group is obliged to repay such deposits upon demand of a depositor. Refer to Note 20.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using sensitivity analysis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement.

(Thousands of Georgian Lari)

30. Risk Management (continued)

Market risk (continued)

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for the period, based on the floating rate non-trading financial assets and financial liabilities held at 30 June 2011. During the six months ended 30 June 2011 (unaudited), six months ended 30 June 2010, year ended 31 December 2010, year ended 31 December 2009 and year ended 31 December 2008, sensitivity analysis did not reveal significant potential effect on the Group's equity.

Currency	*Increase in basis points 30 June 2011*	*Sensitivity of net interest income 30 June 2011*	*Sensitivity of total comprehensive income 30 June 2011*
USD	0.01%	24	24

Currency	*Decrease in basis points 30 June 2011*	*Sensitivity of net interest income 30 June 2011*	*Sensitivity of total comprehensive income 30 June 2011*
USD	-0.01%	–	–

Currency	*Increase in basis points 30 June 2010*	*Sensitivity of net interest income 30 June 2010*	*Sensitivity of total comprehensive income 30 June 2010*
USD	0.08%	155	155

Currency	*Decrease in basis points 30 June 2010*	*Sensitivity of net interest income 30 June 2010*	*Sensitivity of total comprehensive income 30 June 2010*
USD	0.08%	–	–

Currency	*Increase in basis points 31 December 2010*	*Sensitivity of net interest income 31 December 2010*	*Sensitivity of total comprehensive income 31 December 2010*
EUR	0.01%	1	–
USD	0.00%	46	–
UAH	0.75%	–	34

Currency	*Decrease in basis points 31 December 2010*	*Sensitivity of net interest income 31 December 2010*	*Sensitivity of total comprehensive income 31 December 2010*
EUR	-0.01%	(1)	–
USD	-0.00%	(46)	–
UAH	-0.75%	–	(34)

Currency	*Increase in basis points 31 December 2009*	*Sensitivity of net interest income 31 December 2009*	*Sensitivity of total comprehensive income 31 December 2009*
EUR	0.10%	2	–
USD	0.10%	186	–
UAH	0.75%	–	52

Currency	*Decrease in basis points 31 December 2009*	*Sensitivity of net interest income 31 December 2009*	*Sensitivity of total comprehensive income 31 December 2009*
EUR	-0.10%	(2)	–
USD	-0.10%	(186)	–
UAH	-0.75%	–	(52)

(Thousands of Georgian Lari)

30. Risk Management (continued)

Market risk (continued)

Currency	*Increase in basis points 31 December 2008*	*Sensitivity of net interest income 31 December 2008*	*Sensitivity of total comprehensive income 31 December 2008*
UAH	0.75%	–	72
EUR	1.50%	79	–
USD	0.55%	3,434	–

Currency	*Decrease in basis points 31 December 2008*	*Sensitivity of net interest income 31 December 2008*	*Sensitivity of total comprehensive income 31 December 2008*
UAH	-1.25%	–	(121)
EUR	-1.50%	(79)	–
USD	-0.55%	(3,434)	–

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Group had significant exposure at 30 June 2011 on its trading and non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the six months ended 30 June 2011, six months ended 30 June 2010 (unaudited), year ended 31 December 2010, year ended 31 December 2009 and year ended 31 December 2008, sensitivity analysis did not reveal significant potential effect on Group's equity.

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Effect on total comprehensive income*	*Change in currency rate in %*	*Effect on profit before tax*	*Effect on total comprehensive income*
		30 June 2011			*30 June 2010*	
EUR	3.9%	8,289	8,289	7.0%	3,366	3,366
GBP	7.0%	1,219	1,219	7.2%	358	358
BYR	99.4%	124	124	6.4%	1	1
UAH	0.7%	2	2	0.4%	–	–
USD	5.7%	14,992	14,992	2.6%	1,066	1,066

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Effect on total comprehensive income*	*Change in currency rate in %*	*Effect on profit before tax*	*Effect on total comprehensive income*	*Change in currency rate in %*	*Effect on profit before tax*	*Effect on total comprehensive income*
	31 December 2010			*31 December 2009*			*31 December 2008*		
EUR	0.8%	234	–	12.7%	(3,792)	–	14.9%	(832)	–
GBP	0.8%	1	–	16.1%	63	–	24.9%	17	–
RUR	0.7%	3	–	0.3%	(1)	–	0.3%	(6)	–
UAH	0.3%	–	91	0.3%	–	228	2.8%	8	–
USD	0.3%	323	–	1.3%	(669)	–	9.2%	(1,216)	–

The Group also monitors foreign currency Value-at-Risk exposures and sets limits on the back of the NBG total regulatory capital. Actual VaR and limits are checked and assessed on a monthly basis by ALCO.

(Thousands of Georgian Lari)

30. Risk Management (continued)

Market risk (continued)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar or whatever reasons.

The Group observes prior history of early repayments by calculating weighted average rate of early repayments across each credit product, individually, applying these historical rates to the outstanding carrying amount of each loan product as at the reporting date and by further multiplying the product by the weighted average effective annual interest rates per each product. Sum of the products is determined a the expected amount of unforeseen losses in case of early repayments that the Bank is exposed as at the reporting date. The model does not make a distinction between different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties, as the Bank's income.

Accordingly estimated effect on profit of the Group for the six months ended 30 June and on equity is as follows:

	Effect on net interest income	*Effect on other comprehensive income*
Six months ended 30 June 2011	(5,199)	–
Six months ended 30 June 2010 (unaudited)	(2,754)	–

Estimated effect on profit of the Group for the year ended 31 December and on equity is as follows:

	Effect on net interest income	*Effect on other comprehensive income*
2010	(67,605)	–
2009	(14,557)	–
2008	(34,546)	–

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Operating environment

As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside of the country and undeveloped debt and equity markets). However over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In management's view, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

(Thousands of Georgian Lari)

31. Fair Values of Financial Instruments

Financial instruments recorded at fair value

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

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

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

	Level 1	*Level 2*	*Level 3*	*Total 30 June 2011*
Financial assets				
Investment securities – available-for-sale	427	399,326	4,564	404,317
Other assets – derivative financial assets	1,743	34,325	–	36,068
Other assets – trading securities owned	833	–	–	833
	3,003	**433,651**	**4,564**	**441,218**
Financial liabilities				
Other liabilities – derivative financial liabilities	8,135	25,375	–	33,510
	8,135	**25,375**	**–**	**33,510**

	Level 1	*Level 2*	*Level 3*	*Total 31 December 2010*
Financial assets				
Investment securities – available-for-sale	4,958	284,573	5,409	294,940
Other assets – derivative financial assets	2,250	683	–	2,933
Other assets – trading securities owned	1,218	–	–	1,218
	8,426	**285,256**	**5,409**	**299,091**
Financial liabilities				
Other liabilities – derivative financial liabilities	2,211	15,314	–	17,525
	2,211	**15,314**	**–**	**17,525**

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

(Thousands of Georgian Lari)

31. Fair Values of Financial Instruments (continued)

Financial instruments recorded at fair value (continued)

	Level 1	*Level 2*	*Level 3*	*Total 31 December 2008*
Financial assets				
Investment securities – available-for-sale	17,644	16,093	–	33,737
Other assets – derivative financial assets	255	–	–	255
Other assets – trading securities owned	92	–	–	92
	17,991	**16,093**	–	**34,084**
Financial liabilities				
Other liabilities – derivative financial liabilities	1,323	–	–	1,323
	1,323	**–**	**–**	**1,323**

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

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

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

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

	At 1 January 2009	*Transfer from other assets*	*At 1 January 2010*	*Purchase of AFS securities*	*At 31 December 2010*	*Sale of AFS securities*	*At 30 June 2011*
Financial assets							
Investment securities – available-for-sale	–	4,265	4,265	1,144	5,409	(845)	4,564
Total level 3 financial assets	–	**4,265**	**4,265**	**1,144**	**5,409**	**(845)**	**4,564**
Total net level 3 financial assets	–	**4,265**	**4,265**	**1,144**	**5,409**	**(845)**	**4,564**

No financial instruments were transferred during six months ended 30 June 2011 from level 1 and level 2 to level 3 of the fair value hierarchy. Gains or losses on level 3 financial instruments during six months ended 30 June 2011 comprised nil.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions
The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	Carrying amount	*Effect of reasonably possible alternative assumptions*	*Carrying amount*	*Effect of reasonably possible alternative assumptions*	*Carrying amount*	*Effect of reasonably possible alternative assumptions*
	30 June 2011		*31 December 2010*		*31 December 2009*	
Financial assets						
Investment securities – available-for-sale	4,564	+/- 732	5,409	+/- 814	4,265	+/- 642

(Thousands of Georgian Lari)

31. Fair Values of Financial Instruments (continued)

Financial instruments recorded at fair value (continued)

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

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

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

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

	Carrying value 30 June 2011	*Fair value 30 June 2011*	*Unrecognised gain (loss) 30 June 2011*	*Carrying value 31 December 2010*	*Fair value 31 December 2010*	*Unrecognised loss 31 December 2010*
Financial assets						
Cash and cash equivalents	338,408	338,408	–	611,584	611,584	–
Amounts due from credit institutions	308,067	308,067	–	116,469	116,469	–
Loans to customers	2,375,110	2,376,845	1,735	2,351,697	2,319,388	(32,309)
Finance lease receivables	64,791	64,791	–	14,419	14,419	–
Investment securities:						
– held-to-maturity	21	21	–	21	21	–
Financial liabilities						
Amounts due to customers	2,228,505	2,247,801	(19,296)	2,026,308	2,041,403	(15,095)
Amounts due to credit institutions	986,592	986,592	–	1,138,927	1,138,927	–
Total unrecognised change in unrealised fair value			**(17,561)**			**(47,404)**

	Carrying value 31 December 2009	*Fair value 31 December 2009*	*Unrecognised gain (loss) 31 December 2009*	*Carrying value 31 December 2008*	*Fair value 31 December 2008*	*Unrecognised loss 31 December 2008*
Financial assets						
Cash and cash equivalents	357,889	357,889	–	415,821	415,821	–
Amounts due from credit institutions	64,620	64,620	–	81,403	81,403	–
Loans to customers	1,661,331	1,621,779	(39,552)	2,039,022	1,991,449	(47,573)
Finance lease receivables	16,896	16,896	–	41,605	41,605	–
Investment securities:						
– held-to-maturity	249,196	249,196	–	22,845	22,845	–
Financial liabilities						
Amounts due to customers	1,273,130	1,271,958	1,172	1,193,129	1,201,751	(8,622)
Amounts due to credit institutions	928,615	928,615	–	1,216,722	1,216,722	–
Total unrecognised change in unrealised fair value			**(38,380)**			**(56,195)**

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than thee months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

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

(Thousands of Georgian Lari)

32. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 30 "Risk management" for the Group's contractual undiscounted repayment obligations.

	30 June 2011			31 December 2010		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Financial assets						
Cash and cash equivalents	338,408	–	338,408	611,584	–	611,584
Amounts due from credit institutions	294,053	14,014	308,067	107,707	8,762	116,469
Loans to customers	1,212,785	1,162,325	2,375,110	1,191,914	1,159,783	2,351,697
Finance lease receivables	16,576	48,215	64,791	8,828	5,591	14,419
Investment securities:						
– available–for–sale	306,639	97,678	404,317	242,535	52,405	294,940
– held–to–maturity	–	21	21	21	–	21
Total	**2,168,461**	**1,322,253**	**3,490,714**	**2,162,589**	**1,226,541**	**3,389,130**
Financial liabilities						
Amounts due to customers	2,089,664	138,841	2,228,505	1,881,371	144,937	2,026,308
Amounts due to credit institutions	351,798	634,794	986,592	193,386	945,541	1,138,927
Total	**2,441,462**	**773,635**	**3,215,097**	**2,074,757**	**1,090,478**	**3,165,235**
Net	**(273,001)**	**548,618**	**275,617**	**87,832**	**136,063**	**223,895**

	31 December 2009			31 December 2008		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Financial assets						
Cash and cash equivalents	357,889	–	357,889	415,821	–	415,821
Amounts due from credit institutions	60,121	4,499	64,620	68,975	12,428	81,403
Loans to customers	655,906	1,005,425	1,661,331	897,167	1,141,855	2,039,022
Finance lease receivables	12,466	4,430	16,896	33,375	8,230	41,605
Investment securities:						
– available–for–sale	19,590	–	19,590	33,737	–	33,737
– held–to–maturity	249,196	–	249,196	22,845	–	22,845
Total	**1,355,168**	**1,014,354**	**2,369,522**	**1,471,920**	**1,162,513**	**2,634,433**
Financial liabilities						
Amounts due to customers	1,198,357	74,773	1,273,130	1,124,603	68,526	1,193,129
Amounts due to credit institutions	37,866	890,749	928,615	402,094	814,628	1,216,722
Total	**1,236,223**	**965,522**	**2,201,745**	**1,526,697**	**883,154**	**2,409,851**
Net	**118,945**	**48,832**	**167,777**	**(54,777)**	**279,359**	**224,582**

The Group's capability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time. In the Georgian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the undiscounted financial liability analysis gap does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

(Thousands of Georgian Lari)

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

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

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

As at 30 June 2011 deposits amounted to GEL 2,228,505 (2010: GEL 2,026,308, 2009: GEL 1,273,130, 2008: GEL 1,193,129) and represented 66% (2010: 61%, 2009: 55%, 2008: 47%) of Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 30 June 2011 amounts owed to credit institutions amounted to GEL 986,592 (2010: GEL 1,138,927, 2009: GEL 928,615, 2008: GEL 1,216,722) and represented 29% (2010: 34%, 2009: 40%, 2008: 48%) of total liabilities.

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

33. Related Party Disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the period are as follows:

	2011			***2010** (unaudited)*		
	Parent	*Associates**	*Key management personnel*	*Parent*	*Associates*	*Key management personnel*
Loans outstanding at 1 January, gross	**–**	**2,191**	**4,758**	**–**	**9,255**	**5,791**
Loans issued during the year	–	574	3,817	522	52	3,685
Loan repayments during the year	–	(463)	(2,599)	–	(342)	(3,857)
Other movements	–	2,775	(128)	–	(6,958)	(1,057)
Loans outstanding at 30 June, gross	**–**	**5,077**	**5,848**	**522**	**2,007**	**4,562**
Less: allowance for impairment at 30 June	–	(589)	(103)	–	(876)	(126)
Loans outstanding at 30 June, net	**–**	**4,488**	**5,745**	**522**	**1,131**	**4,436**
Interest income on loans	–	433	292	–	41	305
Loan impairment (reversal) charge	–	(28)	(7)	–	123	92
Deposits at 1 January	**36,410**	**726**	**8,999**	**12,098**	**506**	**6,919**
Deposits received during the year	32,900	9,237	15,576	54,220	8,744	26,510
Deposits repaid during the year	(30,670)	(8,890)	(16,496)	(44,664)	(8,795)	(24,118)
Other movements	2,513	(300)	(84)	(1,418)	168	(2,490)
Deposits at 30 June	**41,153**	**773**	**7,995**	**20,236**	**623**	**6,821**
Interest expense on deposits	935	19	299	677	46	149
Other income	333	–	48	437	–	49

**** As at 30 June 2011 a total of GEL 4,247 were gross loans granted to two legal entities controlling stakes of which were owned by a member of the Bank's Management Board and a member of the Bank's Supervisory Board. A total of GEL 419 allowance for impairment and GEL 375 interest income were recognized on these loans in the consolidated statement of financial position and consolidated income statement, respectively, as at and for the six months ended 30 June 2011.***

(Thousands of Georgian Lari)

33. Related Party Disclosures (continued)

	2010			2009			2008		
	Parent	*Asso-ciates*	*Key management personnel*	*Parent*	*Asso-ciates*	*Key management personnel*	*Parent*	*Asso-ciates*	*Key management personnel*
Loans outstanding at 1 January, gross	**–**	**9,255**	**5,791**	**265**	**21,644**	**5,572**	**–**	**13,598**	**520**
Loans issued during the year	–	624	7,125	–	7,736	5,616	1,339	12,085	8,229
Loan repayments during the year	–	(707)	(6,877)	(265)	(10,322)	(8,633)	(1,074)	(9,709)	(3,375)
Other movements	–	(6,981)	(1,281)	–	(9,803)	3,236	–	5,670	198
Loans outstanding at 31 December, gross	**–**	**2,191**	**4,758**	**–**	**9,255**	**5,791**	**265**	**21,644**	**5,572**
Less: allowance for impairment at 31 December	–	(1,564)	(119)	–	(870)	(212)	–	(3,181)	(1,064)
Loans outstanding at 31 December, net	**–**	**627**	**4,639**	**–**	**8,385**	**5,579**	**265**	**18,463**	**4,508**
Interest income on loans	–	344	611	–	1,250	799	–	2,125	468
Loan impairment charge	–	661	65	–	594	(92)	–	3,099	120
Deposits at 1 January	**12,098**	**506**	**6,919**	**12,733**	**177**	**18,324**	**12,733**	**4,485**	**626**
Deposits received during the year	41,646	16,185	36,658	–	27,989	42,908	–	79,356	53,081
Deposits repaid during the year	(16,851)	(16,127)	(33,522)	(635)	(27,792)	(54,647)	–	(83,638)	(35,450)
Other movements	(483)	162	(1,056)	–	132	334	–	(26)	67
Deposits at 31 December	**36,410**	**726**	**8,999**	**12,098**	**506**	**6,919**	**12,733**	**177**	**18,324**
Interest expense on deposits	1,681	68	471	–	5	425	–	2	14
Other income	1,671	–	69	437	–	35	767	–	32

Compensation of key management personnel was comprised of the following:

	For the six months ended 30 June		For the year ended 31 December		
	2011	2010 *Unaudited*	2010	2009	2008
Salaries and other benefits	10,927	12,192	20,530	17,833	9,975
– Among them, termination benefits	–	–	*426*	*759*	*10*
Share-based payments compensation (Notes 26 and 29)	7,441	4,740	8,920	10,530	7,820
– Among them, termination benefits	–	–	*1,183*	*2,178*	–
Social security costs	190	406	441	256	94
Recruitment costs	–	–	–	–	28
Total key management compensation	**18,558**	**17,338**	**29,891**	**28,619**	**17,917**

The number of key management personnel at 30 June 2011 was 158 (31 December 2010: 163, 31 December 2009: 151, 31 December 2008: 105).

34. Capital Adequacy

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

During six months ended 30 June 2011, the Bank and the Group had complied in full with all its externally imposed capital requirements.

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

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

(Thousands of Georgian Lari)

34. Capital Adequacy (continued)

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum capital adequacy ratio of 12% of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008 the Bank's capital adequacy ratio on this basis was as follows:

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Core capital	530,006	494,128	535,427	573,146
Supplementary capital	348,130	423,389	269,729	162,902
Less: Deductions from capital	(180,994)	(367,418)	(347,853)	(269,427)
Total regulatory capital	**697,142**	**550,099**	**457,303**	**466,621**
Risk-weighted assets	**4,606,121**	**3,800,624**	**2,717,084**	**3,458,133**
Total capital adequacy ratio	**15.1%**	**14.5%**	**16.8%**	**13.5%**

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

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on consolidated statement of financial position and computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008, follows:

	30 June 2011	*31 December 2010*	*31 December 2009*	*31 December 2008*
Tier 1 capital	700,763	637,971	548,710	637,753
Tier 2 capital	389,988	404,788	369,480	273,311
Less: Deductions from capital	(57,640)	(70,722)	(67,454)	(134,238)
Total regulatory capital	**1,033,111**	**972,037**	**850,736**	**776,826**
Risk-weighted assets	**3,872,251**	**3,653,247**	**2,454,763**	**2,950,653**
Total capital ratio	26.7%	26.6%	34.7%	26.3%
Tier 1 capital ratio	18.1%	17.5%	22.4%	21.6%
Minimum capital adequacy ratio	**8%**	**8%**	**8%**	**8%**

35. Event after the Reporting Period

On 18 July 2011 the Group paid dividends comprising Lari 0.3 per share as declared on 1 July 2011.

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