BANK OF GEORGIA HOLDINGS PLC

HALF-YEAR REPORT 2013

BANK OF GEORGIA
HOLDINGS PLC

TABLE OF CONTENTS

FORWARD LOOKING STATEMENTS

This document contains statements that constitute "forward-looking statements", including , but not limited to, statements concerning expectations, projections , objectives, targets, goals, strategies, future events, future revenues or performance, 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.

While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other factors could cause actual developments and results to differ materially from our expectations.

These factors include, but are not limited to (1) general market, macroeconomic, governmental, legislative and regulatory trends; (2) movements in local and international currency exchange rates; interest rates and securities markets; (3) competitive pressures; (4) technological developments; (5) changes in the financial position or credit worthiness of our customers, obligors and counterparties and developments in the market in which they operate; (6) management changes and changes to our group structure; and (7) other key factors that we have indicated could adversely affect our business and financial performance, which are contained elsewhere in this document and in our past and future filings and reports, including those filed with the respective authorities.

When relying on forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events. Accordingly, we are under no obligations (and expressly disclaim such obligations) to update or alter our forward-looking statements whether as a result of new information, future events, or otherwise.

HIGHLIGHTS

Bank of Georgia Holdings PLC (LSE: BGEO LN), the holding company of JSC Bank of Georgia (the "Bank") Georgia's leading bank representing the Bank's subsidiaries making up a group of companies ("the Group"), announced today the Group's 1H 2013 and Q2 2013 consolidated results reporting a record half-year profit for 1H 2013 of GEL 95.1 million, (US$57.6 million/GBP 37.8 million) or record earnings per share of GEL 2.70 (US$1.64 per share/GBP 1.07 per share). The Bank also reported a record quarterly profit in Q2 2013 of GEL 53.1 million (US$32.2 million/GBP 21.1 million), or GEL 1.51 per share (US$0.91 per share/GBP 0.60 per share). Unless otherwise mentioned, comparisons are with the first half of 2012. The results are based on IFRS and are unaudited and derived from management accounts.

Record Q2 2013 profit drives robust first half performance

- **Positive operating leverage maintained with strong profitability**
  - Net Interest Margin (NIM) of 7.7%, compared to 8.2% in 1H 2012
    - Q2 2013 NIM of 7.9%, compared to 7.6% in Q1 2013
  - Revenue increased by GEL 23.7 million, or 9.9% y-o-y, to GEL 262.7 million; Revenue adjusted for one-off foreign currency gain* increased by 11.3% to GEL 262.7 million
    - Q2 2013 revenue grew 13.6% q-o-q to GEL 139.7 million
  - Positive operating leverage maintained at 9.4% in 1H 2013, as operating expenses stayed largely flat at GEL 109.6 million
    - Q2 2013 y-o-y operating leverage of 13.3%
  - Cost to Income ratio improved to 41.7% compared to 45.6% in 1H 2012
    - Q2 2013 Cost to Income ratio reached a record low of 39.9% compared to 43.8% in Q1 2013 and 45.5% Q2 2012
  - Profit for the period increased by GEL 9.1 million, or 10.5% y-o-y, to GEL 95.1 million
  - Earnings per share (basic) increased by 5.1% to a record GEL 2.70, compared to GEL 2.57 in 1H 2012
  - Return on Average Assets (ROAA) stood at 3.4%, compared to 3.7%
    - Q2 2013 ROAA stood at 3.8%, compared to 3.1% in Q1 2013
  - Return on Average Equity (ROAE) stood at 17.6%, from 19.6%
    - Q2 2013 ROAE stood at 19.3%, compared to 15.9% in Q1 2013
- **Strong balance sheet supported by solid capital position and declining cost of funds**
  - Net loan book increased by 6.8% y-o-y, while client deposits increased by 3.5% y-o-y
  - Cost of client deposits decreased from 7.7% in 1H 2012 to 6.2% in 1H 2013; Q2 2013 cost of client deposits stood at 5.9%
  - Q2 2013 loan book grew 5.7% q-o-q, while client deposits increased 1.1% q-o-q
    - Retail Banking net loans grew 5.3% q-o-q, while client deposits increased 7.0% q-o-q
    - Corporate Banking net loans grew 4.8% q-o-q, while client deposits decreased 3.1% q-o-q, reflecting targeted outflow of high-interest paying deposits
  - Cost of risk in Q2 2013 remained largely flat at 1.5% compared to 1.4% in Q1 2013. 1H 2013 cost of risk of 1.5% compares to 0.9% in 1H 2012. The year-on-year increase was attributed to both Retail Banking and Corporate Banking loan portfolios
  - High liquidity maintained with 26.8% assets made up of cash and cash equivalents, NBG CDs, Georgian government treasury bills and bonds and other high quality liquid assets as of 30 June 2013. The National Bank of Georgia (NBG) liquidity ratio of 44.8% compared to 35.2% a year ago and to 30% minimum requirement by the regulator
  - Excellent funding position with a Net Loans to Customer Funds ratio of 109.6%, down from 114.8% YE 2012 and up from 102.7% in 1H 2012. As of 30 June 2013, Net Loans to Customer Funds and Long-Term DFI Funding ratio was 90.0%
  - BIS Tier 1 capital adequacy ratio improved to 22.9%
  - Book value per share increased by 12.9% y-o-y to GEL 30.9 (US$18.72/GBP 12.28)
  - Balance Sheet leverage at 4.1 times as of 30 June 2013, compared to 4.2 times

*One-off foreign currency gain by BNB in Q1 2012, the Bank's subsidiary in Belarus

- **Business highlights**
  - Retail Banking continues to deliver strong franchise growth, supported by the successful roll-out of the Express Banking strategy in 2012, adding 649 new Express Pay terminals and 115,000 Express cards in 1H 2013. Retail Banking loan book grew 14.6% y-o-y.
  - Corporate Banking loan book increased by 4.8% q-o-q in Q2 2013 after a slow-down in Q1 2013. Cost efficiency of Corporate Banking improved markedly as Cost to Income declined from 32.1% in 1H 2012 to 25.9% in 1H 2013
  - Investment Management (formerly Asset and Wealth Management) continued to expand its franchise with Assets under Management (AUM) increasing by 18.0% to GEL 624.2 million in 1H 2013. Since the launch of the Certificate of Deposit (CD) programme in January 2013, the amount of CDs issued to Investment Management clients reached GEL 103.2 million, as of 30 June 2013
  - Aldagi, the Group's Insurance and Healthcare business, reported a 1H 2013 profit of GEL 11.4 million, up from GEL 6.5 million in 1H 2012
  - Affordable Housing pre-sold 68% of the apartments of its second housing project, currently in the construction process. In 1H 2013, Affordable Housing segment posted its first half year profit of GEL 4.4 million

STATEMENT OF CEO

"I am pleased to report Bank of Georgia's record 1H 2013 profit and earnings per share, predominantly driven by the strong broad-based performance of Q2 2013. This was a quarter marked by a record high in both revenue and profit and a record low cost to income ratio. A further decrease in the cost of funding and an improved NIM, notwithstanding our high levels of liquidity were among the main contributors to the improved Cost to Income ratio. We succeeded in decreasing our one year US$ denominated deposit rate from 8% to 5% level, which is historically the lowest rate in the country and this was done without compromising our deposit growth. I am also delighted to report that our Express Strategy contributed significantly to these efficiency improvements while boosting client acquisition. In Q2 2013 approximately 70,000 new clients started to use our banking services, bringing the total number of our clients to approximately 1.2 million, up by 25.0% y-o-y. Our synergistic businesses were key contributors to the strong growth of non-interest income, driving our non-interest income to total revenue ratio to 44.2% in Q2 2013. As a result of these developments, we achieved a return on average equity for the quarter of 19.3%, one of our key performance metrics.

Our Q2 2013 revenue grew 13.6% quarter-on-quarter to a record GEL 139.7 million, which through our positive operating leverage, resulted in an increase of 26.4% q-o-q in profit to a record GEL 53.1 million. Benefiting from continuously decreasing cost of funds and markedly improved efficiency over the past year, our first half 2013 revenue amounted to record GEL 262.7 million, up 11.3% y-o-y (adjusted for one-off foreign currency gains), while our profit for the period reached record GEL 95.1 million, or record GEL 2.70 per share, up from GEL 2.57 per share in the same period last year.

I would like touch upon the key highlights of the reporting period. They confirm in our belief that our chosen strategy is sound and will, combined with the execution capabilities of our management team, strengthen the foundations we have laid for resilient long-term growth.

I will start with the successful implementation of our Express banking strategy, which is one of the most focal drivers of our continuously improving cost efficiency and client acquisition. In the first half of 2013, our Express Banking franchise grew impressively as added 649 new Express Pay terminals, issued 115,000 contactless cards and attracted 118,000 new, mostly emerging client base that translate into more than 125,000 retail current accounts opened during the period. More gratifying is that this growth was achieved on the back of improving cost efficiency, in particular in Q2 2013, as 8.2% year-on-year growth in revenue compares to 5.1% reduction in operating expenses for the same period, recording one of the high operating leverages achieved by the group. Respectively, the Q2 2013 Cost to Income ratio stood at 39.9%, its historical low, and in recent quarters our Express strategy has been a key driver of our continuously improving cost efficiency.

The growth in clients and cards helped to boost Retail Banking current account balances that grew 37.3% y-o-y to GEL 202.8 million. This growth has supported our continuing efforts to improve the quality and cost of our funding. Several rounds of deposit rate cuts, have translated into a reduction in the interest rate on US dollar denominated deposits by 300 basis points since the beginning of the year without compromising the growth of client deposit balances. Our current term deposit contractual rates are at 5.0%, the lowest rate ever offered by any bank in Georgia. While the most recent reduction in rates in June 2013 haven't been reflected in our current results, I am very pleased to report our cost of deposits at 5.9% in Q2 2013, or 150 bps lower than Q2 2012. Reflecting this significant reduction of cost of funds and notwithstanding excess liquidity of GEL 491.7 million, our NIM in Q2 2013 grew to 7.9%, compared to 7.6% in the previous quarter.

I am also pleased to note that since the end of the first quarter 2013, our loan book increased by 5.7%, more than offsetting the 4.4% decline in the net loan book in Q1 2013 compared to Q4 2012. Both our retail and corporate loan books contributed to the growth in the second quarter of 2013, which was also marked by a healthy trend of de-dollarisation of the loan book, supported by a new repo programme from the NBG which began in May 2013. Under the NBG programme, in May and June alone we issued Lari denominated loans totaling GEL 17.7 million. As of end of June 2013, Lari denominated loans accounted for 33.3% of the total net loan book, compared to 31.4% last year.

Overall, our balance sheet remains strong, ending the first half of the year with a strong Tier I ratio of 22.9%. The Group's loan to customer funds and DFIs ratio stood at 90.0% and, leverage was only 4.1 times.

This year we more than doubled our dividend payment compared to last year. In June 2013 we paid a 2012 annual dividend of GEL 1.5 per share (GBP 0.58), translating into a dividend payout ratio of 28.7%, well within the range of 25%-40%, which we announced as our target payout ratio range going forward.

Our strategy, which was launched at the end of 2010 with an aim to further diversify revenue base by increasing non-interest income sources, is now paying-off. Our insurance and Healthcare and Affordable Housing businesses contributed 16.1% to our profit in 1H 2013, thus becoming key drivers in increasing the ratio of non-interest income to total revenue to 44.2% in Q2 2013 up from 40.6% in 2010. Synergistic businesses were the main contributors in the growth of non-interest income, which reached GEL 112.2 million in 1H 2013, up 10.7% y-o-y.

Our insurance and healthcare subsidiary, Aldagi completed the roll-out of healthcare facilities in 1H 2013 and as the country's largest healthcare provider is well positioned to benefit from the healthcare reform that envisages universal coverage for the entire population. Further potential reforms of the insurance sector are also being discussed which could further benefit Aldagi's position in the Georgian insurance market.

Our Affordable Housing business is gaining momentum. Having completed the first housing project with the Internal Rate of Return (IRR) of 34% and with 68% of the apartments of its second housing project pre-sold, m2 RE is gearing up for next two housing projects. In May 2013, m2 RE secured the financing for these projects from IFC for up to US$14 million, becoming the first Georgian real estate company to cooperate with IFC to develop a housing project in Tbilisi. The US$14 million revolving loan includes up to US$4 million from the IFC-Canada Climate Change Programme. Access to capital is one of the Bank of Georgia Group's key advantages on the local market and once again m2 RE demonstrated this.

Our next step in terms of revenue diversification efforts is to further expand our Investment Management business and export our Express Pay systems internationally. Our asset and wealth management business has been renamed as Investment Management to better reflect the broadened scope of the activities and product offerings that we aim to achieve with a view to capitalising on the opportunities that Georgia and its neighbouring countries offer. To this end we have combined our advisory, brokerage, research and asset and wealth management under Investment Management that will aim to develop and expand fee generating business for the Bank. On the Express Pay side we can offer payments solutions in countries where it is needed most, which is expected to contribute to the further growth of our fee business. Our strategy in revenue diversification is simple: we want to leverage our knowledge of the region and expertise in business directions where we have demonstrated an impeccable track record and we intend to achieve this with minimal capital commitment.

I am also happy to note the completion of management reorganisation with the most recently announced appointment of Giorgi Chiladze as Chief Risk Officer (CRO), the position of which has been vacant since May 2013 when Sulkhan Gvalia, former CRO for eight years at the Bank, moved to become Deputy CEO in charge of Corporate Banking. Archil Gachechiladze, who previously managed the Bank's corporate business, is now in charge of Investment Management, one of our main strategic priorities. We believe the new structure will better serve the Bank's evolving needs and the execution of our strategy going forward.

In the second half of the year we aim to deliver strong profitability and a return on average equity of approximately 20%, which we intend to achieve on the back of diversified revenue growth and further strong cost discipline. With our leadership in payment systems, and the strength of our brand and franchise, we are well-positioned to continue benefiting from economies of scale and keep delivering positive operating leverage. Liability management will continue to be a key priority in 2013, as we believe we have flexibility to further improve our costs of both client deposits and international funding. We are also committed to prudent capital management with the view of maintaining Tier I Capital ratio of approximately 20%.

Despite the pick-up in credit demand in the second quarter of 2013, loan growth across the industry continues to be soft, reflecting the cautious stance mostly by the Georgian corporate sector. The most recently published Supplementary Analysis for Georgia by S&P estimates that real GDP growth in 2013 will slow to 3.5% before returning to average growth rates of more than 5% in the following years. While a pick-up in economic activity is expected in the second half of the year, the real GDP growth rate of only 1.8% in the first half of 2013 is lower than we expected. We remain mindful of the possibility of subdued credit demand in the second half of the year, which may translate into lower than expected loan book growth for 2013. With high liquidity levels, we remain extremely well positioned for the increase in business activity and loan demand that is anticipated by the Georgian government in the second half of 2013 and beyond" commented ***Irakli Gilauri***, Chief Executive Officer of Bank of Georgia Holdings PLC and JSC Bank of Georgia.

FINANCIAL SUMMARY

BGH (Consolidated, Unaudited, IFRS-based) **Income Statement Summary** *GEL thousands, unless otherwise noted*	**1H 2013**	**1H 2012**	**Change Y-O-Y**
Revenue[1]	262,676	238,985	9.9%
Operating expenses	(109,621)	(109,064)	0.5%
Operating income before cost of credit risk	153,055	129,921	17.8%
Cost of credit risk[2]	(36,261)	(13,947)	160.0%
Net operating income	116,794	115,974	0.7%
Net non-operating expense	(5,453)	(12,393)	-56.0%
Profit	95,102	86,039	10.5%
Earnings per share (basic)	2.70	2.57	5.1%

BGH (Consolidated, Unaudited, IFRS-based) **Statement of Financial Position**	**30 June 2013**	**30 June 2012**	**Change Y-O-Y**	**31 March 2013**	**Change Q-O-Q**
Total assets	5,671,694	4,935,014	14.9%	5,533,858	2.5%
Net loans[3]	3,122,916	2,923,140	6.8%	2,954,724	5.7%
Customer funds[4]	2,850,234	2,846,263	0.1%	2,817,677	1.2%
Tier I Capital Adequacy Ratio (BIS)[5]	22.9%	21.9%		23.2%	
Total Capital Adequacy Ratio (BIS)[5]	27.8%	28.1%		28.2%	
NBG Tier I Capital Adequacy Ratio[6]	15.4%	15.0%		16.8%	
NBG Total Capital Adequacy Ratio[6]	16.3%	17.8%		17.1%	
Leverage (times)[7]	4.1	4.2		4.0	
GEL/US Exchange Rate (period-end)	1.6509	1.6451		1.6577	
GEL/GBP Exchange Rate (period-end)	2.5160	2.5677		2.5189	

BGH (Consolidated, Unaudited, IFRS-based) **Income Statement Summary** *GEL thousands, unless otherwise noted*	**Q2 2013**	**Q2 2012**	**Change Y-O-Y**	**Q1 2013**	**Change Q-O-Q**
Revenue[1]	139,700	129,142	8.2%	122,976	13.6%
Operating expenses	(55,740)	(58,754)	-5.1%	(53,880)	3.5%
Operating income before cost of credit risk	83,960	70,388	19.3%	69,096	21.5%
Cost of credit risk[2]	(18,984)	(6,568)	189.0%	(17,278)	9.9%
Net operating income	64,976	63,820	1.8%	51,818	25.4%
Net non-operating expense	(4,089)	(7,994)	-48.8%	(1,365)	199.6%
Profit	53,105	46,276	14.8%	41,997	26.4%
Earnings per share (basic)	1.51	1.33	13.5%	1.19	26.9%

[1] Revenue includes net interest income, net fee and commission income, net insurance revenue, net healthcare revenue and other operating non-interest income
[2] Cost of credit risk includes impairment charge (reversal of impairment) on: loans to customers, finance lease receivables and other assets and provisions
[3] Net loans equal to net loans to customers and net finance lease receivables
[4] Customer funds equal amounts due to customers
[5] BIS Tier I Capital Adequacy Ratio equals consolidated Tier I Capital as of the period end divided by total consolidated risk weighted assets as of the same date. BIS Total Capital Adequacy Ratio equals total consolidated capital as of the period end divided by total consolidated risk weighted assets. Both ratios are calculated in accordance with the requirements of Basel Accord I
[6] NBG Tier I Capital and Total Capital Adequacy Ratios are calculated in accordance with the requirements of the National Bank of Georgia
[7] Leverage (times) equals Total Liabilities divided by Total Equity

DISCUSSION OF RESULTS

Revenue

GEL thousands, unless otherwise noted	1H 2013	1H 2012	Change Y-O-Y
Loans to customers	260,047	244,965	6.2%
Investment securities[8]	17,642	17,806	-0.9%
Amounts due from credit institutions[9]	4,945	9,624	-48.6%
Finance lease receivables	3,208	4,133	-22.4%
Interest income	**285,842**	**276,528**	**3.4%**
Amounts due to customers	(85,538)	(103,765)	-17.6%
Amounts due to credit institutions, of which	(49,625)	(34,047)	45.8%
Eurobonds	*(16,191)*	*(930)*	*NMF*
Subordinated debt	*(11,144)*	*(14,397)*	*-22.6%*
Loans and deposits from other banks	*(22,291)*	*(18,720)*	*19.1%*
Interest expense	**(135,163)**	**(137,812)**	**-1.9%**
Net interest income before interest rate swaps	**150,679**	**138,716**	**8.6%**
Net loss from interest rate swaps	(185)	(1,053)	-82.4%
Net interest income	**150,494**	**137,662**	**9.3%**
Fee and commission income	54,898	51,477	6.6%
Fee and commission expense	(12,622)	(9,944)	26.9%
Net fee and commission income	**42,276**	**41,533**	**1.8%**
Net insurance premiums earned	64,289	32,383	98.5%
Net insurance claims incurred	(41,565)	(20,426)	103.5%
Net insurance revenue	**22,724**	**11,957**	**90.0%**
Healthcare revenue	27,489	22,587	21.7%
Cost of healthcare services	(18,498)	(13,391)	38.1%
Net healthcare revenue[10]	**8,991**	**9,196**	**-2.2%**
Net gain from trading and investment securities	2,590	953	171.8%
Net gain from revaluation of investment property	4,842	-	-
Net gain from foreign currencies, adjusted for one-off foreign currency gain[11]	21,677	23,242	-6.7%
Other operating income	9,082	11,492	-21.0%
Other operating non-interest income	**38,191**	**35,687**	**7.0%**
Revenue, adjusted for one-off foreign currency gain	**262,676**	**236,036**	**11.3%**
One-off foreign currency gain[11]	-	2,949	-100.0%
Revenue	**262,676**	**238,985**	**9.9%**

[8] Primarily consist of Georgian government treasury bills and bonds and National Bank of Georgia's Certificates of Deposits (CDs)
[9] Time deposits with credit institutions with less than 90 days maturity included in cash and cash equivalents
[10] For net healthcare revenue disclosures please see Insurance and Healthcare segment discussion
[11] One-off foreign currency gain by BNB

Revenue continued to be broadly based in the first half of 2013 with growth coming from all the main revenue items and increasing by 9.9% y-o-y to GEL 262.7 million. Adjusting for the one-off foreign currency gain by BNB in Q1 2012, the Bank's subsidiary in Belarus, revenue increased by 11.3% y-o-y. Net interest income increased 9.3% y-o-y to GEL 150.5 million and the combined revenue of GEL 31.7 million from insurance and healthcare businesses contributed 12.1% to the consolidated revenue, up from 8.9% contributed in 1H 2012.

Interest income growth of 3.4% was driven by a 6.2% increase in interest income from loans to customers, which was partly offset by lower interest income from other interest earning assets. The decline in interest income due from credit institutions was due to the decrease in interbank deposit rates in line with the reduction of NBG's refinancing rates from 5.75% as of 30 June 2012 to 4.0% as of 30 June 2013 to tackle inflationary pressures in the country. However, on the back of declining rates, debt securities owned by the Bank that are classified as available-for-sale and carried at fair value, have appreciated resulting in an unrealised net gain of GEL 2.5 million for 1H 2013, recognised in other comprehensive income directly to the balance sheet. Overall, liquid assets accounted for 26.8% of the Bank's total assets, compared to 22.9% in 1H 2012.

Interest expense decreased by 1.9% as a result of the substantial reduction in cost of funds from 7.9% in 1H 2012 to 6.4% in 1H 2013, with the decline mostly driven by the significant reduction in cost of client deposits. Cost of client deposits during the period decreased by 150 bps y-o-y reflecting significant deposit rate cuts on the back of continuous deposit inflows throughout the period. Contractual deposit rates decreased to 5.0% from 8.0% a year ago (on US$ denominated deposits) and to 9.0%, from 12.0% (on GEL deposits), in June 2013. The most recent rate cuts occurred in June 2013 and therefore have not been fully reflected in Q2 2013 and 1H 2013 results. As a result of the foregoing, in 1H 2013 interest expense on amounts due to customers (customer funds) decreased by 17.6% y-o-y compared to the same period last year. The impact of this decrease was partly offset by higher interest expense due to credit institutions, which increased despite lower average funding costs due to a 68.5% increase in the balance of amounts due to credit institutions following the issuance of Eurobond in July 2012.

Net Interest Margin (NIM)

GEL thousands, unless otherwise noted	**1H 2013**	**1H 2012**	**Change Y-O-Y**
Net interest income	150,494	137,663	9.3%
Net Interest Margin	**7.7%**	**8.2%**	
Average interest earning assets[12]	3,931,547	3,394,269	15.8%
Average interest bearing liabilities[12]	4,243,520	3,557,381	19.3%
Excess liquidity[13]	491,666	171,799	186.2%
Loan yield	16.8%	17.8%	
Cost of funds	6.4%	7.9%	

[12] Monthly averages are used for calculation of average interest earning assets and average interest bearing liabilities
[13] Excess liquidity is the excess amount of the liquid assets, as defined per NBG, which exceeds the minimal amount of the same liquid assets for the purposes of the minimal 30% liquidity ratio per NBG definitions

1H 2013 NIM stood at a healthy 7.7%, benefiting from the strong Q2 2013 NIM of 7.9%, up from 7.6% in the previous quarter. On a year-on-year basis, 1H 2013 NIM declined 50 bps compared to 1H 2012, reflecting an almost threefold increase in excess liquidity during the period. Adjusting the 1H 2013 NIM to the same liquidity level of 1H 2012 would result in the NIM of 8.4%. The 1H 2013 NIM was supported by the significant decline in cost of funds, which dropped by 150 bps and compares to a more moderate decrease of loan yield of 100 bps during the period.

Net fee and commission income

GEL thousands, unless otherwise noted	**1H 2013**	**1H 2012**	**Change Y-O-Y**
Fee and commission income	54,898	51,477	6.6%
Fee and commission expense	(12,622)	(9,944)	26.9%
Net fee and commission income	**42,276**	**41,533**	**1.8%**

Net fee and commission income grew by GEL 0.7 million, or 1.8%, to GEL 42.3 million as a result of growth in the Bank's settlement operations, driven by the expansion of the Bank's Express Banking service, through which it delivers cost effective self-service transactional and remote banking facilities.

Net insurance revenue and net healthcare revenue

GEL thousands, unless otherwise noted	**1H 2013**	**1H 2012**	**Change Y-O-Y**
Net insurance premiums earned	64,289	32,383	98.5%
Net insurance claims incurred	(41,565)	(20,426)	103.5%
Net insurance revenue	**22,724**	**11,957**	**90.0%**
Healthcare revenue	27,489	22,587	21.7%
Cost of healthcare services, of which:	(18,498)	(13,391)	38.1%
Salaries and other employee benefits	*(10,682)*	*(9,466)*	*12.8%*
Depreciation expenses	*(1,564)*	-	-
Other operating expenses	*(6,252)*	*(3,925)*	*59.3%*
Net healthcare revenue[14]	**8,991**	**9,196**	**-2.2%**

[14] For the net healthcare revenue disclosures please see the Insurance and Healthcare segment discussion

The Group's insurance and healthcare businesses posted yet another record revenue and contributed 12.1% to total revenue compared to 8.9% last year. Net insurance revenue increased 90.0% as net insurance premiums nearly doubled during the period, reflecting the growth of the business. During the six months ended 30 June 2013, total inter-company claims transactions between the Group's insurance and healthcare businesses amounted to GEL 6.5 million compared to GEL 2.3 million during the same period in 2012, which is in line with the Group's strategy of increasing concentration of the claims expenditure within the Group. While inter-company claims represent an expense for the insurance business, such claims are also revenues for the healthcare business, on a standalone basis. (During accounting consolidation the inter-company claims are eliminated.)

The resulting expansion of business operations drove the 21.7% y-o-y increase in Healthcare revenue to GEL 27.5 million. The 38.1% growth of healthcare services costs was a result of accounting reclassification of additional depreciation and utility expenses including in this item in 2013, which in prior years were included in operating expenses. (Please see more details under Insurance and Healthcare segment discussion)

Other operating non-interest income

GEL thousands, unless otherwise noted	**1H 2013**	**1H 2012**	**Change Y-O-Y**
Net gain from trading and investment securities	2,590	953	171.8%
Net gain from revaluation of investment property	4,842	-	NMF
Net gain from foreign currencies, adjusted for one-off foreign currency gain[15]	21,677	23,242	-6.7%
Other operating income[16]	9,082	11,492	-21.0%
Other operating non-interest income, adjusted for one-off currency gain	**38,191**	**35,687**	**7.0%**
One-off currency gain	-	2,949	NMF
Other operating non-interest income	**38,191**	**38,636**	**-1.2%**

[15] One-off foreign currency (FX) gain by BNB
[16] Other operating income includes net revenue from the sale of goods of the Bank's non-banking subsidiaries

Other operating non-interest income, adjusted for the one-off foreign currency gain, increased by 7.0%, driven by an increase in net gain from trading and investment securities, consisting of NBG CDs, government treasury bills and treasury bonds. The revaluation of the investment property earmarked for two real estate development projects to be commenced in Q3 2013 by the Bank's real estate subsidiary m2 RE, resulted in the net gain from revaluation of investment property of GEL 4.8 million in 1H 2013 (please see Affordable Housing segment discussion for the information on financing of the real estate projects). Net gains for foreign currencies, adjusted for one-off foreign currency gain decreased by 6.7% as a result of slower economic activity in the first half of the year in particular.

Net operating income, cost of credit risk, profit for the period

GEL thousands, unless otherwise noted	1H 2013	1H 2012	Change Y-O-Y
Salaries and other employee benefits	(65,077)	(57,829)	12.5%
General and administrative expenses	(29,764)	(33,762)	-11.8%
Depreciation and amortization expenses	(13,339)	(13,919)	-4.2%
Other operating expenses	(1,441)	(3,554)	-59.5%
Operating expenses	**(109,621)**	**(109,064)**	**0.5%**
Operating income before cost of credit risk	**153,055**	**129,921**	**17.8%**
Cost of credit risk	**(36,261)**	**(13,947)**	**160.0%**
Net operating income	**116,794**	**115,974**	**0.7%**
Net non-operating expense	(5,453)	(12,393)	-56.0%
Profit before income tax expense	**111,341**	**103,581**	**7.5%**
Income tax expense	(16,239)	(17,542)	-7.4%
Profit	**95,102**	**86,039**	**10.5%**

As the Group continues to exercise a firm grip on costs, operating expenses stayed broadly flat increasing by only 0.5% y-o-y. Within this figure, salaries and other employment benefits increased by 12.5% reflecting an increase in headcount by 810 new employees to service the Group's growing customer base. General and administrative expenses, however, decreased by 11.8% as a result of further progress made on cost containment initiatives across the business, efficiency gains from Express Banking strategy and the effects of economies of scale. Cost to Income ratio fell to 41.7% compared to 45.6% in 1H 2012 and adjusted Cost to Income ratio of 46.2% in 1H 2012. Operating leverage amounted to 9.4% in 1H 2013 and operating leverage adjusted for one-off currency gain reached 10.8% compared to 6.6% in 1H 2012. Operating leverage of 10.8% compares to 5.2%, on an adjusted basis during the same period last year. The improvement in cost efficiency was especially attributed to Q2 2013, when the Cost to Income ratio declined to 39.9%, from 43.8% in Q1 2013 and 45.5% in Q2 2012.

As a result, operating income before cost of credit risk increased by 17.8% to GEL 153.1 million.

Cost of credit risk increased by 160.0%, which largely represents impairment charges related to both the Retail Banking and Corporate Banking loan portfolios, translating into an annualised cost of risk of 1.5%. Allowance for loan impairment was GEL 117.6 million or 3.6% of total gross loans as of 1H 2013.

The Bank's non-performing loans (NPLs), defined as the principal and interest on the overdue loans for more than 90 days and additional potential losses estimated by management, increased by GEL 5.6 million year-to-date to GEL 132.0 million as of 30 June 2013. The Bank's NPLs to total gross loans ratio stood at 4.1% in 1H 2013 compared to 3.3% as of 30 June 2012. The Bank maintained its conservative NPL Coverage ratio at 89.1%, which compares to 115.2% as of 30 June 2012 and 87.5% as of 31 December 2012. NPL coverage adjusted for the discounted value of collateral was 117.4% as of 30 June 2013.

In 1H 2013, the Bank's net operating income totalled GEL 116.8 million, up 0.7% year-on-year. The Bank's net non-operating expense for the period totalled GEL 5.5 million, down 56.0%, mostly reflecting the absence of the tender offer and premium listing expenses incurred in 1H 2012.

As a result, profit before income tax from continuing operations in the first half of 2013 totalled GEL 111.3 million, an increase of GEL 7.8 million, or 7.5%. After income tax expense of GEL 16.2 million, the Bank's 1H 2013 profit for the period stood at GEL 95.1 million, up by GEL 9.1 million, or 10.5%, compared to the first half of 2012.

Balance Sheet highlights

The Bank continued to be disciplined in its focus on sustaining its strong balance sheet, which remains highly capitalised. The Bank remains predominantly deposit funded and we continued to see good inflow of client deposits in 1H 2013, up 3.5% YTD to GEL 2,838.2 million. Significant interest rate cuts drove the cost of client deposits to 5.9% in Q2 2013. Contractual deposit rates on 12 month maturity US$ denominated deposits declined from 8.0% as of 30 June 2012 to its historical low of 5.0% at the end of Q2 2013. The decline of interest rates was more pronounced on foreign currency deposits, which led to the increase in the proportion of GEL denominated deposits from 31.3% at the end of December 2012 to 34.4% as of 30 June 2013. Amounts due to credit institutions increased by 68.5% to GEL 1,457.7 million as a result of Eurobond issued in 2H 2012 and the replacement of some costly borrowings with lower cost international funding. As a result, in 1H 2013, cost of amounts due to credit institutions decreased 150 bps y-o-y to 7.0%.

Demand in loans picked up during the second quarter of the year, increasing 5.7% q-o-q, 6.8% y-o-y and 1.0% YTD. The growth in the loan book was driven by strong growth in retail loans which grew by 14.6% y-o-y (up by GEL 184.6 million) or by 7.2% YTD (GEL 97.0 million), and was also supported by the pick-up in the corporate lending demand, which increased 1.1% y-o-y. On a quarterly basis, Corporate Banking loan book grew 4.8% q-o-q, almost completely recovering the 6.2% decline in corporate loans in Q1 2013 since the beginning of the year.

Currency denomination of selected balance sheet items

	GEL			Foreign Currency (FC)		
GEL thousands, unless otherwise noted	**30 June 2013**	**30 June 2012**	**Change Y-O-Y**	**30 June 2013**	**30 June 2012**	**Change Y-O-Y**
Loans to customers and finance lease receivables, net	1,040,816	917,594	13.4%	2,082,100	2,005,546	3.8%
Amounts due to customers, of which:	977,181	869,486	12.4%	1,873,053	1,976,777	-5.2%
Client deposits	*977,181*	*868,257*	*12.5%*	*1,860,972*	*1,874,344*	*-0.7%*
Promissory notes	-	*1,229*	*-100.0%*	*12,081*	*102,433*	*-88.2%*

Our intensified efforts to de-dollarise the balance sheet have started to pay off in 1H 2013 when compared to the same period last year. A sharp decrease in US$ deposit rates has translated into a decrease of foreign currency denominated deposits (mostly US$) by 0.7% y-o-y compared to a 12.5% increase in client deposits denominated in local currency. On the asset side, 3.8% y-o-y growth in foreign currency denominated loans compare to a 13.4% y-o-y growth in loans denominated in GEL. As a result of the foregoing, the proportion of loans denominated in local currency increased to 33.3% as of 30 June 2013 from 31.4% a year ago. Our efforts to de-dollarise the balance sheet also benefited from the Lari lending support programme of the NBG, which entails providing financing to the Georgian banks for GEL denominated loans linked to the NBG's refinancing rate. Since the first loan was issued within the framework of the NBG Lari lending programme in May 2013, the Bank issued 204 Lari denominated mortgage and SME loans worth GEL 17.7 million of Lari loans as of 30 June 2013.

Liquidity, funding and capital management

GEL thousands, unless otherwise noted	1H 2013	1H 2012	Change Y-O-Y
Amounts due to credit institutions, of which:	1,475,686	875,928	68.5%
Eurobonds	*424,854*	-	*NMF*
Subordinated debt	*208,236*	*235,701*	*-11.7%*
Loans and deposits from other banks	*842,596*	*640,227*	*31.6%*
Customer Funds	2,850,234	2,846,263	0.1%
Client deposits, of which	*2,838,153*	*2,742,601*	*3.5%*
CDs	*113,973*	-	-
Promissory notes	*12,081*	*103,662*	*-88.3%*
Net Loans / Customer Funds	109.6%	102.7%	
Net Loans/Customer Funds + DFIs	90.0%	86.5%	
Liquid assets	**1,520,214**	**1,132,508**	**34.2%**
Liquid assets as percent of total assets	26.8%	22.9%	
Liquid assets as percent of total liabilities	33.3%	28.5%	
NBG liquidity ratio	44.8%	35.2%	
Excess liquidity	491,666	171,799	186.2%

The Bank’s liquidity position remained well-above regulatory requirements. The liquidity ratio, as per the requirements of the National Bank of Georgia, stood at 44.8% against a required minimum of 30%, while liquid assets, comprising of cash and cash equivalents, investment securities, government treasuries and bonds and interbank deposits increased 34.2% y-o-y reaching GEL 1,520.2 million and accounting for 26.8% of total assets and 33.3% of total liabilities. Effective 1 July 2013, NBG introduced a transitional amendment to its existing liquidity ratio, entailing additional liquidity requirement relating to non-resident deposits. Applying the new liquidity requirement to our 30 June 2013 results, would result in a 41.4% liquidity ratio per the NBG amended regulation, which compares to the actual 44.8% per previous regulation. This would translate into the decline of excess liquidity by GEL 114.1 million, resulting in the excess liquidity of GEL 377.6 million compared to the actual GEL 491.7 million as of 30 June 2013.

Net Loans to Customer Funds and DFIs ratio remained stable at 90.0% as of 30 June 2013 compared to 91.9% at the YE 2012 and 86.5% a year ago. The Bank’s Tier I Capital ratio (BIS) stood at 22.9% an improvement from 22.0% at the end of 2012 and 21.9% a year ago.

As a result of the foregoing, the Bank’s total assets stood at GEL 5,671.7 million as of 30 June 2013, an increase of 0.3% since the beginning of the year and 14.9% compared to 30 June 2012. Total liabilities amounted to GEL 4,568.8 million, down 0.6% year-to-date and up 14.9% y-o-y, while shareholders’ equity reached GEL 1,048.6 million, a 3.7% increase since the beginning of the year and 14.9% increase from the same period last year

The Bank’s Book value per share on 30 June 2013 stood at GEL 30.90 (US$18.72/GBP 12.28) compared to GEL 27.37 (US$16.64/GBP 10.66) as of 30 June 2012 and GEL 30.33 (US$18.31/GBP 11.38) as of 31 December 2012.

RESULTS BY QUARTER

Revenue

GEL thousands, unless otherwise noted	Q2 2013	Q2 2012	Change Y-O-Y	Q1 2013	Change Q-O-Q
Loans to customers	130,589	126,541	3.2%	129,458	0.9%
Investment securities	9,634	7,983	20.7%	8,007	20.3%
Amounts due from credit institutions	2,330	5,411	-56.9%	2,615	-10.9%
Finance lease receivables	1,709	2,120	-19.4%	1,500	13.9%
Interest income	**144,262**	**142,055**	**1.6%**	**141,580**	**1.9%**
Amounts due to customers	(41,620)	(49,931)	-16.6%	(43,918)	-5.2%
Amounts due to credit institutions	(24,636)	(15,339)	60.6%	(24,990)	-1.4%
Eurobonds	*(8,213)*	-		*(7,977)*	*3.0%*
Subordinated debt	*(4,924)*	*(6,322)*	*-22.1%*	*(6,220)*	*-20.8%*
Loans and deposits from other banks	*(11,498)*	*(9,017)*	*27.5%*	*(10,793)*	*6.5%*
Interest expense	**(66,255)**	**(65,269)**	**1.5%**	**(68,908)**	**-3.9%**
Net interest income before interest rate swaps	**78,007**	**76,786**	**1.6%**	**72,672**	**7.3%**
Net loss from interest rate swaps	(109)	(285)	-61.8%	(76)	43.4%
Net interest income	**77,898**	**76,501**	**1.8%**	**72,596**	**7.3%**
Fee and commission income	28,337	27,355	3.6%	26,562	6.7%
Fee and commission expense	(6,558)	(5,537)	18.4%	(6,066)	8.1%
Net fee and commission income	**21,779**	**21,818**	**-0.2%**	**20,496**	**6.3%**
Net insurance premiums earned	32,545	19,896	63.6%	31,744	2.5%
Net insurance claims incurred	(21,547)	(12,613)	70.8%	(20,018)	7.6%
Net insurance revenue	**10,998**	**7,283**	**51.0%**	**11,726**	**-6.2%**
Healthcare revenue	14,419	12,327	17.0%	13,070	10.3%
Cost of healthcare services	(9,319)	(7,908)	17.8%	(9,179)	1.5%
Net healthcare revenue[17]	**5,100**	**4,419**	**15.4%**	**3,891**	**31.1%**
Net gain from trading and investment securities	1,306	157	NMF	1,284	1.7%
Net gain from revaluation of investment property	4,842	-	-	-	-
Net gain from foreign currencies	12,225	11,833	3.3%	9,452	29.3%
Other operating income	5,552	7,131	-22.1%	3,531	57.2%
Other operating non-interest income	**23,925**	**19,121**	**25.1%**	**14,267**	**67.7%**
Revenue	**139,700**	**129,142**	**8.2%**	**122,976**	**13.6%**

[17] For the net healthcare revenue disclosures please see the Insurance and Healthcare segment discussion

In Q2 2013, the Bank posted revenue of GEL 139.7 million, up 8.2% y-o-y and 13.6% q-o-q. On a quarterly basis, the growth was largely driven by substantial reduction in cost of client deposits, which resulted in interest expense on amounts due to customers plummeting by 5.2% q-o-q and strongly contributing to a 7.3% growth in net interest income, also supported by the pick-up in loan book growth in Q2 2013. The improved operating environment during the quarter is also reflected in 6.3% q-o-q net fee and commission growth and a 31.1% increase in net healthcare revenue in Q2 2013.

On a year-on-year basis, net interest income grew by 1.8%, reflecting a significant reduction in cost of funds in the past 12 months (by 150 bps y-o-y) and in Q2 2013 in particular (by 50 bps q-o-q). The significant reduction in cost of funds year-on-year was attributed to the 16.6% decline in cost of client deposits compared to the same period last year. The net loan book growth of 6.8% y-o-y, translated into a 3.2% y-o-y growth in interest income from loans to customers, which was partially offset by y-o-y decline in interest income from amounts due to credit institutions, attributed to lower yields on the Bank's liquid assets. The Group's insurance business posted another quarter of strong results in Q2 2013, with net insurance revenue of GEL 11.0 million for the quarter increasing by 51.0% y-o-y. Net healthcare revenue increased by 15.4% y-o-y, as a result of the growth of healthcare business.

Net Interest Margin

GEL thousands, unless otherwise noted	Q2 2013	Q2 2012	Change Y-O-Y	Q1 2013	Change Q-O-Q
Net interest income	77,898	76,501	1.8%	72,596	7.3%
Net Interest Margin	**7.9%**	**9.0%**		**7.6%**	
Average interest earning assets[18]	3,959,352	3,422,197	15.7%	3,873,126	2.2%
Average interest bearing liabilities[18]	4,266,321	3,524,065	21.1%	4,203,717	1.5%
Excess liquidity[19]	491,666	171,799	186.2%	475,708	3.4%
Loan yield	16.9%	18.0%		16.9%	
Cost of funds	6.2%	7.5%		6.7%	

[18] Monthly averages are used for calculation of average interest earning assets and average interest bearing liabilities
[19] Excess liquidity is the excess amount of the liquid assets, as defined per NBG, which exceeds the minimal amount of the same liquid assets for the purposes of the minimal 30% liquidity ratio per NBG definitions.

The Q2 2013 NIM grew from 7.6% in Q1 2013 to 7.9%, the growth driven by the loan book increase translating into healthy q-o-q net interest income growth of 7.3%, well above the 2.2% increase in average interest earning assets during the quarter. Loan yield remained flat at 16.9% compared to the previous quarter, while cost of deposits declined by 50 bps q-o-q to 5.9% in Q2 2013. Contractual rates have been reduced to a historic low of 5.0% on 12 month US$ denominated deposits and 9.0% on Georgian Lari denominated deposits as of June 2013, the effects of the deposit rate cuts have not been fully reflected in Q2 2013 net interest income and the NIM.

On a year-on-year basis, as a result of the decline in yields on interest earning assets, net interest income increased by a relatively low rate of 1.8% compared to 15.7% rise in average interest earning assets. Year-on year, loan yield declined by 100 bps, while yields on the investment securities portfolio, which predominantly includes government securities went down by 230 bps as a result of deflationary pressures in the country. The lower loan yields compared to prior year and excess liquidity reaching GEL 491.7 million in Q2 2012 (up from GEL 171.8 million in Q2 2012), resulted in a 110 basis point decline in Q2 2013 NIM compared to the same period last year. Adjusting Q2 2013 NIM to the same liquidity level as Q2 2012, would result in a NIM of 8.8%.

Net operating income, cost of credit risk, profit for the period

GEL thousands, unless otherwise noted	Q2 2013	Q2 2012	Change Y-O-Y	Q1 2013	Change Q-O-Q
Salaries and other employee benefits	(32,575)	(32,000)	1.8%	(32,501)	0.2%
General and administrative expenses	(15,707)	(17,997)	-12.7%	(14,057)	11.7%
Depreciation and amortization expenses	(6,747)	(7,155)	-5.7%	(6,593)	2.3%
Other operating expenses	(711)	(1,602)	-55.6%	(729)	-2.5%
Operating expenses	**(55,740)**	**(58,754)**	**-5.1%**	**(53,880)**	**3.5%**
Operating income before cost of credit risk	**83,960**	**70,388**	**19.3%**	**69,096**	**21.5%**
Cost of credit risk	**(18,984)**	**(6,568)**	**189.0%**	**(17,278)**	**9.9%**
Net operating income	**64,976**	**63,820**	**1.8%**	**51,818**	**25.4%**
Net non-operating expense	(4,089)	(7,994)	-48.8%	(1,365)	199.6%
Profit before income tax expense	**60,887**	**55,826**	**9.1%**	**50,453**	**20.7%**
Income tax expense	(7,782)	(9,495)	-18.0%	(8,456)	-8.0%
Profit from continuing operations	**53,105**	**46,331**	**14.6%**	**41,997**	**26.4%**
Net loss from discontinued operations	-	(55)	-100.0%	-	-
Profit	**53,105**	**46,276**	**14.8%**	**41,997**	**26.4%**

In Q2 2013, the Bank's operating expenses totalled GEL 55.7 million, a 3.5% increase compared to the previous quarter and a 5.1% decline compared to same period last year. The improvement on a year-on-year basis was as a result of ongoing measures to keep tight grip on costs, predominantly as a result of largely stable cost of salaries and other employment benefits and a 12.7% y-o-y decrease in general and administrative expenses. Net non-operating expenses increased from GEL 1.4 million in Q1 2013 to GEL 4.1 million in Q2 2013 predominantly as a result of a write down of an investment through the Bank's subsidiary Liberty Consumer.

Cost of credit risk for the quarter increased by GEL 1.7 million to GEL 19.0 million.

As a result of the foregoing, in Q2 2013, the Bank's net operating income totalled GEL 65.0 million, up 1.8% y-o-y and up 25.4% q-o-q. The Bank's net non-operating expense returned to normalised levels and amounted to GEL 4.1 million, down 48.8% y-o-y, reflecting the absence of costs mostly associated with the premium listing tender offer in Q2 2012. Profit before income tax from continuing operations in Q2 2013 reached GEL 60.9 million, up 9.1% y-o-y. After income tax expense of GEL 7.8 million, the Bank's Q2 2013 profit for the period stood at GEL 53.1 million, up 14.8% y-o-y and up 26.4% q-o-q.

SEGMENT RESULTS

Strategic Businesses Segment Result Discussion

Segment result discussion is presented for the Bank of Georgia's Retail Banking (RB), Corporate Banking (CB) and Investment Management, Insurance and Healthcare (Aldagi), Affordable Housing (m2 RE) in Georgia and BNB in Belarus, excluding inter-company eliminations.

Retail Banking (RB)

GEL thousands, unless otherwise noted	**1H 2013**	**1H 2012**	**Change Y-O-Y**
Net interest income	91,065	83,226	9.4%
Net fee and commission income	25,321	25,504	-0.7%
Net gain from foreign currencies	7,063	6,229	13.4%
Other operating non-interest income	2,657	2,895	-8.2%
Revenue	**126,106**	**117,854**	**7.0%**
Operating expenses	(60,514)	(55,263)	9.5%
Operating income before cost of credit risk	**65,592**	**62,591**	**4.8%**
Cost of credit risk	(17,470)	(11,139)	56.8%
Net non-operating expense	(539)	(3,869)	-86.1%
Profit before income tax expense	**47,583**	**47,583**	**0.0%**
Income tax expense	(6,015)	(7,389)	-18.6%
Profit from continuing operations	**41,568**	**40,194**	**3.4%**
Net gain from discontinued operations	-	2	-100.0%
Profit	**41,568**	**40,196**	**3.4%**
Net loans, standalone	1,445,324	1,260,715	14.6%
Client deposits, standalone	925,779	734,885	26.0%
Loan yield	*20.5%*	*21.1%*	
Cost of deposits	*5.7%*	*6.3%*	
Cost / income ratio	*48.0%*	*46.9%*	

Retail Banking provides consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services and handling customer deposits for both individuals and legal entities, encompassing the mass affluent segment, retail mass markets, SME and micro businesses.

Retail Banking posted robust 1H 2013 results, driven by strong Retail Banking net loan book growth in Q2 2013. Net interest income in the first half of the year reached GEL 91.1 million, an increase of 9.4% y-o-y, reflecting the 14.6% y-o-y growth of the Retail Banking loan book to GEL 1,445.3 million, up 5.3% q-o-q and 7.2% YTD. Net fees and commission income stayed largely flat at GEL 25.3 million, while net gains from foreign currencies were up 13.4% y-o-y to GEL 7.1 million, the growth attributed to increased foreign currency transactions by Retail Banking clients.

Retail Banking expenses grew by 9.5% y-o-y, reflecting the growth of the Bank's Retail Banking operations, in particular the expansion of our Express Banking footprint during the period. Cost of credit risk of Retail Banking in 1H 2013 amounted to GEL 17.5 million, compared to GEL 11.1 million same period last year. The increase was mostly a result of low cost of risk in 1H 2012 due to strong recoveries. Retail Banking profit reached GEL 41.6 million in 1H 2013, up 3.4% y-o-y.

The contractual rates on US$ denominated one year term Retail Banking deposits declined to 5.0% in Q2 2013 from 7.5% in Q1 2013 and 8.0% in Q2 2012. The contractual rates on GEL denominated one year term deposits also declined from 12.0% in Q2 2012 to 9.0% in Q2 2013. Notwithstanding the continuously declining deposit rates throughout the last twelve months, deposits from Retail Banking clients continued to grow, resulting in a 7.0% q-o-q increase of deposits from Retail Banking clients reaching GEL 925.8 million (up 13.4% YTD and up 26.0% y-o-y) as of 30 June 2013. As a result of the foregoing, the cost of retail client deposits declined 70 bps q-o-q to 5.4% in Q2 2013. The effects of the deposit rate cuts in Q2 2013 have not been fully reflected in Q2 2013 deposit costs as the latest cut in rates took place in June 2013. In 1H 2013, the cost of Retail Banking deposits was 5.7%, down by 60 bps y-o-y.

The cheapest source of funding for the Bank, current account balances in Retail Banking grew by GEL 55.1 million y-o-y to GEL 202.8 million as of 30 June 2013, the increase a result of the rollout of our Express banking strategy aimed at attracting emerging mass market customers and the unbanked population.

Highlights

- Increased number of Express Pay terminals to 870 from 124 in 1H 2012. Express Pay terminals are used for bank transactions such as credit card and consumer loan payments, utility bill payments and mobile telephone top-ups.
- Stepped up the issuance of Express cards, first contactless cards in Georgia, which also serve as a metro and bus transport payment card and offer loyalty programmes to clients.
- Since the launch on 5 September 2012, 308,354 Express cards have been issued in essence replacing pre-paid metro cards in circulation since July 2009. As of 30 June 2012, approximately 1.3 million metro cards still remained outstanding and are expected to be gradually replaced with Express cards.
- Issued 261,358 debit cards, including Express cards, in 1H 2013 bringing the total debit cards outstanding to 797,492 up 32.8% y-o-y.
- Issued 32,272 credit cards of which 28,538 were American Express cards in 1H 2013. A total of 184,923 American Express cards have been issued since the launch in November 2009. The total number of outstanding credit cards amounted to 111,817 (of which 100,660 were American Express Cards).
- Outstanding number of Retail Banking clients totalled 1,172,652 up 25.6% y-o-y and by 6.4% (70,311 clients) q-o-q.
- Acquired 887 new clients in the Solo business line, the Bank's mass affluent sub-brand, in 1H 2013. As of 30 June 2013, the number of Solo clients reached 6,032.
- Increased the number of corporate clients using the Bank's payroll services from 3,149 as of 30 June 2012 to 3,651 as of 30 June 2013. As of the period end, the number of individual clients serviced through the corporate payroll programmes administered by the Bank amounted to 227,005, compared to 194,407 as of 30 June 2012.
- Increased Point of Sales (POS) footprint: as of 30 June 2013, 238 desks at 592 contracted merchants, up from 197 desks and 408 merchants as of 30 June 2012. GEL 41.0 million POS loans were issued in 1H 2013, compared to GEL 22.6 million during the same period last year. POS loans outstanding amounted to GEL 39.8 million, up 73.9% over one year period.
- POS terminals outstanding reached 4,259, up 31.7% y-o-y. The volume of transactions through the Bank's POS terminals grew 28.2% y-o-y to GEL 186.2 million, while the number of POS transactions increased by 1.0 million y-o-y from 2.0 million in 1H 2012 to 3.0 million in Q1 2013.
- Added a new product on the market, whereby a client can activate a pre-approved overdraft limit upon making a purchase through any Bank of Georgia POS terminal. Since the launch in March 2013, 1,571 pre-approved POS loans were issued, worth GEL 1.3 million.
- Consumer loan originations of GEL 269.6 million resulted in consumer loans outstanding totalling GEL 392.1 million as of 30 June 2013, up 21.7% y-o-y and up 11.9% year-to-date.
- Micro loan originations of GEL 203.9 million resulted in micro loans outstanding totalling GEL 301.1 million as of 30 June 2013, up 23.4% y-o-y and up 16.8% year-to-date.
- SME loan originations of GEL 83.6 million resulted in SME loans outstanding totalling GEL 117.9 million as of 30 June 2013, up 37.7% y-o-y and up 10.6% year-to-date.
- Mortgage loans originations of GEL 73.9 million resulted in mortgage loans outstanding of GEL 388.7 million as of 30 June 2013, up 5.2% y-o-y and flat year-to-date.
- RB loan yield amounted to 20.6% in Q2 2013 (21.8% in Q2 2012) and RB deposit cost declined to 5.4% in Q2 2013 (6.2% in Q2 2012).

Corporate Banking (CB)

GEL thousands, unless otherwise noted	**1H 2013**	**1H 2012**	**Change Y-O-Y**
Net interest income	50,460	45,668	10.5%
Net fee and commission income	14,372	14,469	-0.7%
Net gain from foreign currencies	12,536	16,035	-21.8%
Other operating non-interest income	3,256	2,665	22.2%
Revenue	**80,624**	**78,837**	**2.3%**
Operating expenses	(20,854)	(25,337)	-17.7%
Operating income before cost of credit risk	**59,770**	**53,500**	**11.7%**
Cost of credit risk	(17,191)	(1,541)	NMF
Net non-operating expense	(1,017)	(4,568)	-77.7%
Profit before Income tax expense	**41,562**	**47,391**	**-12.3%**
Income tax expense	(5,973)	(7,822)	-23.6%
Profit from continuing operations	**35,589**	**39,569**	**-10.1%**
Net loss from discontinued operations	-	(3)	-100.0%
Profit	**35,589**	**39,566**	**-10.1%**
Net loans, standalone	1,668,041	1,650,487	1.1%
Letters of credit and guarantees*, standalone	471,802	593,701	-20.5%
Client deposits, standalone	1,234,963	1,467,251	-15.8%
Loan yield	*13.2%*	*14.7%*	
Cost of deposits	*5.5%*	*7.7%*	
Cost / Income ratio	*25.9%*	*32.1%*	

*Off-balance sheet items

Corporate Banking business in Georgia comprises of loans and other credit facilities to the country's large corporate clients as well as other legal entities, excluding SME and micro businesses. The services include fund transfers and settlements services, currency conversion operations, trade finance service, trade finance services and documentary operations as well as handling savings and term deposits for corporate and institutional customers. Corporate Banking business also includes finance lease facility provided by the Bank's leasing operations (Georgian Leasing Company).

1H 2013 Corporate Banking results reflect solid net interest income growth and significantly improved cost efficiency. Corporate Banking revenue grew 2.3% in 1H 2013 driven by a 10.5% increase in net interest income to GEL 50.5 million. Net fees and commission income stayed largely flat at GEL 14.4 million, while net gains from foreign currencies declined to GEL 12.5 million from GEL 16.0 million in 1H 2012. Operating expenses decreased markedly by 17.7% as a result of greater cost control measures, which resulted in a significant decline in the Cost to Income ratio from 32.1% in 1H 2012 to 25.9% in 1H 2013.

Cost of credit risk rose to GEL 17.2 million from GEL 1.5 million in 1H 2012. As a result of the foregoing, the 1H 2013 profit of the Corporate Banking business amounted to GEL 35.6 million down 10.1% y-o-y.

1H 2013 Corporate Banking net loan book grew 1.1% y-o-y, driven by a 4.8% growth of the net loan book in Q2 2013 compared to the previous quarter, when the Bank reported a 6.2% decline in its corporate loan book due to the slow-down of the corporate activity in the post-election period and the pre-payment by a large corporate client in March 2013. Corporate Banking client deposits decreased 15.8% y-o-y and 3.1% q-o-q, as a result of aggressive re-pricing of the corporate deposit rates that led to a reduction of in the cost of corporate deposits by 220 bps y-o-y to 5.3% in Q2 2013 compared to a 150 bps y-o-y reduction in the loan yield to 13.2%. The contractual rates on US$ denominated one year term Corporate Banking deposits declined from 8.0% in Q2 2012 to 5.0% in Q2 2013.

Investment Management*

GEL thousands, unless otherwise noted	1H 2013	1H 2012	Change Y-O-Y
Net interest income	4,553	6,550	-30.5%
Net fee and commission income	284	230	23.5%
Net gain from foreign currencies	774	380	103.7%
Other operating non-interest income	28	40	-30.0%
Revenue	**5,639**	**7,200**	**-21.7%**
Operating expenses	(2,659)	(1,924)	38.2%
Operating income before cost of credit risk	**2,980**	**5,276**	**-43.5%**
Cost of credit risk	262	1	NMF
Net non-operating expense	(26)	(126)	-79.4%
Profit before income tax expense	**3,216**	**5,151**	**-37.6%**
Income tax expense	(402)	(799)	-49.7%
Profit	**2,814**	**4,352**	**-35.3%**
Net loans, standalone	16,698	47,219	-64.6%
Client deposits, standalone	624,207	528,882	18.0%
Cost of deposits	*8.1%*	*9.1%*	

*Formerly known as Asset and Wealth Management

The Bank's Investment Management business provides private banking services to resident and non-resident clients by ensuring an individual approach and exclusivity in providing banking services such as holding the clients' savings and term deposits, fund transfers, currency exchange and settlement operations. In addition, Investment Management involves providing services to its clients through a wide range investment opportunities and specifically designed investment products.

Investment Management client deposits increased 18.0% y-o-y to GEL 624.2 million, despite a 100 bps y-o-y decline in cost of deposits. Net interest income declined 30.5% to GEL 4.6 million predominantly as a result of a change in the internal transfer pricing rates within the segments (from Investment Management to RB and CB). As a result, profit of the segment declined 35.3% to GEL 2.8 million.

Highlights

- The Investment Management business currently serves over 1,445 clients from more than 60 countries. Client funds attracted by Investment Management have grown at a compound annual growth rate (CAGR) of 55.1% over the last four year period to GEL 624.2 million as of 30 June 2013.
- Bank of Georgia Research unit, previously under Corporate Banking, has moved under Investment Management.
- Since its launch in June 2012, Bank of Georgia Research has initiated research coverage of Georgian Agricultural Sector, Georgian Electricity Sector, Georgian Oil and Gas Corporation, Georgian Railway, and issued notes on Georgian State Budget and the Tourism Sector as of the date of this report. The Bank of Georgia research platform is aimed at supporting the growth of the Bank's fee generating business.
- Established a Joint Venture with the Georgian Energy Development Fund (the "HPP Joint Venture") to attract financing for the construction of seven hydropower plants with the total capacity of 180MW. The construction is to be financed by funds attracted from investors in international markets following the completion of the feasibility studies of the respective plants.
- Bank of Georgia started a Certificates of Deposit (CD) Programme in December 2012 (official launch January 2013). CDs are tradable securities offering attractive yields to investors in both local and foreign currencies. As of 30 June 2013, the amount of CDs issued to Investment Management clients reached GEL 103.2 million.

Insurance and Healthcare (Aldagi)

	1H 2013				1H 2012				Change Y-O-Y		
	Insurance	**Healthcare**	**Elimination**	**Total**	**Insurance**	**Healthcare**	**Elimination**	**Total**	**Insurance**	**Healthcare**	**Total**
ross premiums written	**64,588**	**-**	**-**	**64,588**	**48,829**	**-**	**-**	**48,829**	**32.3%**	**-**	**32.3%**
et insurance revenue, of which:	17,670	-	6,320	23,990	10,663	-	2,327	12,990	65.7%	-	84.7%
et insurance premiums earned	*65,713*	-	*(158)*	*65,555*	*33,416*	-	-	*33,416*	*96.7%*	-	*96.2%*
et insurance claims incurred	*(48,043)*	-	*6,478*	*(41,565)*	*(22,753)*	-	*2,327*	*(20,426)*	*111.2%*	-	*103.5%*
et healthcare revenue (loss), of which:	-	15,469	(6,477)	8,992	-	11,524	(2,327)	9,197	-	34.2%	-2.2%
ealthcare revenue	-	*45,020*	*(17,530)*	*27,490*	-	*28,173*	*(5,586)*	*22,587*	-	*59.8%*	*21.7%*
ost of healthcare services	-	*(29,551)*	*11,053*	*(18,498)*	-	*(16,649)*	*3,259*	*(13,390)*	-	*77.5%*	*38.1%*
et interest income (expenses)	1,357	(6,267)	-	(4,910)	489	(2,245)	-	(1,756)	177.5%	179.2%	179.6%
et fee and commission income (expenses)	87	(188)	-	(101)	-	-	-	-	-	-	-
et gain (loss) from foreign currencies	(205)	238	-	33	111	1	-	112	NMF	NMF	-70.5%
ther operating non-interest income	396	869	-	1,265	(716)	613	-	(103)	NMF	41.8%	NMF
evenue	**19,305**	**10,121**	**(157)**	**29,269**	**10,547**	**9,893**	**-**	**20,440**	**83.0%**	**2.3%**	**43.2%**
perating expenses	(8,035)	(6,566)	157	(14,444)	(6,520)	(7,314)	-	(13,834)	23.2%	-10.2%	4.4%
perating income before cost of credit risk	**11,270**	**3,555**	**-**	**14,825**	**4,027**	**2,579**	**-**	**6,606**	**179.9%**	**37.8%**	**124.4%**
ost of credit risk	(631)	(789)	-	(1,420)	(238)	-	-	(238)	165.1%	-	NMF
rofit before income tax expense	**10,639**	**2,766**	**-**	**13,405**	**3,789**	**2,579**	**-**	**6,368**	**180.8%**	**7.3%**	**110.5%**
ıcome tax expense	(1,733)	(224)	-	(1,957)	(564)	(374)	-	(938)	NMF	-40.1%	108.6%
rofit from continuing operations	**8,906**	**2,542**	**-**	**11,448**	**3,225**	**2,205**	**-**	**5,430**	**176.2%**	**15.3%**	**110.8%**
et gain from discontinued operations	-	-	-	-	-	-	-	-	-	-	-
rofit	**8,906**	**2,542**	**-**	**11,448**	**3,225**	**2,205**	**-**	**5,430**	**176.2%**	**15.3%**	**110.8%**

Aldagi, the Bank's wholly-owned subsidiary, provides life and non-life insurance and healthcare products and services in Georgia. A leader in the Georgian life and non-life insurance markets, with a market share of 31.8% as of 31 December 2012 based on gross insurance premium revenue, Aldagi cross-sells its insurance products with the Bank's Retail Banking, Corporate Banking and Investment Management products. Aldagi's healthcare business consists of My Family Clinic (MFC) and Unimed, Georgia's leading healthcare providers in which Aldagi holds 51% and 100% stakes, respectively. MFC and Unimed operate a chain of healthcare centres in Georgia, in line with the Bank's strategy of vertically integrating its insurance and healthcare businesses.

In 1H 2013, insurance and healthcare revenue increased to GEL 29.3 million from GEL 20.4 million in 1H 2012, reflecting the growth of both the insurance and healthcare businesses through organic growth as well as acquisitions. Gross premiums written increased by 32.3% to GEL 64.6 million. As a result, net insurance revenues increased by 84.7% y-o-y to GEL 24.0 million. Operating expenses increased by just 4.4% y-o-y, resulting in total operating income before the cost of credit risk of GEL 14.8 million up 124.4% y-o-y.

As a result, the Insurance and Healthcare segment (Aldagi) posted a profit before income tax expense of GEL 13.4 million up from GEL 6.4 million the year before.

The following income statements are presented on a standalone basis, before applying inter-company eliminations, for Insurance segment and Healthcare segment.

Insurance standalone income statement

GEL thousands, unless otherwise noted	**1H 2013**	**1H 2012**	**Change Y-O-Y**
Gross premiums written	**64,588**	**48,829**	**32.3%**
Net insurance revenue, of which:	17,670	10,663	65.7%
Net premiums earned	65,713	33,416	96.7%
Net claims incurred	(48,043)	(22,753)	111.2%
Net interest income	1,357	489	177.5%
Net fee and commission income (expense)	87	-	-
Net loss from foreign currencies	(205)	111	NMF
Other operating non-interest income	396	(716)	NMF
Revenue	**19,305**	**10,547**	**83.0%**
Operating expenses	(8,035)	(6,520)	23.2%
Operating income before cost of credit risk	**11,270**	**4,027**	**179.9%**
Cost of credit risk	(631)	(238)	165.1%
Profit before income tax (expense) benefit	**10,639**	**3,789**	**180.8%**
Income tax (expense) benefit	(1,733)	(564)	NMF
Profit	**8,906**	**3,225**	**176.2%**

Healthcare pro-forma[20] standalone income statement

GEL thousands, unless otherwise noted	**1H 2013**	**1H 2012**	**Change Y-O-Y**
Net healthcare revenue, of which:	18,042	11,524	56.6%
Healthcare revenue	45,020	28,173	59.8%
Cost of healthcare services	(26,978)	(16,649)	62.0%
Net interest expense	(6,267)	(2,245)	179.2%
Net fee and commission income	(188)	-	-
Net loss from foreign currencies	238	1	NMF
Other operating non-interest income	869	613	41.8%
Revenue	**12,694**	**9,893**	**28.3%**
Operating expenses	(9,139)	(7,314)	25.0%
Operating income before cost of credit risk	**3,555**	**2,579**	**37.8%**
Cost of credit risk	(789)	-	-
Profit (loss) before income tax (expense) benefit	**2,766**	**2,579**	**7.3%**
Income tax (expense) benefit	(224)	(374)	-40.1%
Profit	**2,542**	**2,205**	**15.3%**

[20] In 2013, compared to 2012, additional direct operating expenses of the Healthcare business (such as, direct depreciation and other administrative expenses) were netted off against net healthcare revenues through reclassification to cost of healthcare services. No similar reclassifications were applied in 2012. In the pro-forma version of the healthcare income statement, 1H 2013 has been normalised for these additional net-offs, by reversing them and making 1H 2013 more comparable to 1H 2012.

Highlights

- Aldagi's market share stood at 31.8% as of 31 December 2012.
- In Q2 2013, Aldagi completed rebranding by changing its name from Aldagi BCI and the colour of its logo from orange to green. The decision to rebrand the company was based on extensive marketing research analysis on brand recognition and awareness of the company.
- Nearly doubled number of insurance clients to 710,603 from 420,000 a year ago.
- Aldagi Healthcare business completed the roll-out of hospital and clinics, predominantly in Western Georgia. As of 30 June 2013, Aldagi operated 23 hospitals and 4 clinics with a total of 1,231 beds.

Affordable Housing

GEL thousands, unless otherwise noted	Jun-13			Jun-12			Change, Y-O-Y		
	m2	**Mortgages**	**Total**	**m2**	**Mortgages**	**Total**	**m2**	**Mortgages**	**Total**
Net interest income (expenses)	624	412	1,036	(1,431)	68	(1,363)	NMF	NMF	NMF
Net fee and commission expenses	(18)	-	(18)	-	-	-	-	-	-
Net loss from foreign currencies	(44)	-	(44)	(107)	-	(107)	-58.9%	-	-58.9%
Other operating non-interest income	5,641	-	5,641	1,040	-	1,040	NMF	-	NMF
Revenue	**6,203**	**412**	**6,615**	**(498)**	**68**	**(430)**	**NMF**	**NMF**	**NMF**
Operating expenses	(1,103)	-	(1,103)	(1,861)	-	(1,861)	-40.7%	-	-40.7%
Operating income (loss) before cost of credit risk	**5,100**	**412**	**5,512**	**(2,359)**	**68**	**(2,291)**	**NMF**	**NMF**	**NMF**
Cost of credit risk	(185)	251	66	-	(68)	(68)	-	NMF	NMF
Net non-operating expenses	(493)	-	(493)	(2)	-	(2)	NMF	-	NMF
Profit (loss) before income tax benefit (expense)	**4,422**	**663**	**5,085**	**(2,361)**	**-**	**(2,361)**	**NMF**	**-**	**NMF**
Income tax benefit (expense)	(662)	-	(662)	354	-	354	NMF	-	NMF
Profit (loss) from continuing operations	**3,760**	**663**	**4,423**	**(2,007)**	**-**	**(2,007)**	**NMF**	**-**	**NMF**
Net gain from discontinued operations	-	-	-	-	-	-	-	-	-
Profit (loss)	**3,760**	**663**	**4,423**	**(2,007)**	**-**	**(2,007)**	**NMF**	**-**	**NMF**

The Affordable Housing business consists of the Bank's wholly-owned subsidiary m2 RE, which holds investment properties repossessed by the Bank from previously defaulted borrowers. With the aim to improve the liquidity of these repossessed real estate assets and stimulate the Bank's mortgage lending business capitalising on the market opportunity in the affordable housing segment in Georgia, the Bank develops and leases such real estate assets through m2 RE. m2 RE outsources the construction and architecture works and focuses on project management and sales of apartments and mortgages through its well-established branch network and sales force, thus representing a synergistic business for the Bank's mortgage business.

Other operating non-interest income reached GEL 5.6 million, as a result of the revaluation of the two investment properties, which resulted in the net gain from revaluation of GEL 4.8 million. The remainder came from the sale of apartments in the second project as well as rentals. Total revenue as a result totalled GEL 6.6 million compared to GEL 0.4 million loss during the same period last year. As a result, profit for the period totalled GEL 4.4 million compared to a GEL 2.0 million loss in 1H 2012.

Highlights

- Secured US$14.0 million financing from IFC to finance three housing development projects of m2 RE. The revaluation of the respective properties have resulted in GEL 4.8 million revaluation gain for the Group. The development of the new housing projects are planned to commence in the second half 2013.
- Construction of a second project of a 522 apartment building with a total buildable area of 63,247 square meters is in progress. As of 30 June 2013, 356 or 68% of apartments have been pre-sold, of which 95 units were sold in Q2 2013. The total sales from this project amounted to GEL 46.7 million as of 30 June 2013.
- Total sales from the first project amounted to US$9.3 million and IRR of 33.6%
- Number of mortgages sold in both projects totalled 214, amounting to GEL 22.5 million.
- Net cash balance* of m2 Real Estate as of 30 June 2013 amounted to GEL 8.3 million.

*cash and cash equivalents and amounts due from credit institution less debt

Non-Core Businesses

The Group's non-core businesses that accounted for 5.1% of total assets and 6.3% of total revenue in 1H 2012, predominantly comprise BNB, our Belarus banking operation and Liberty Consumer, a Georgia focused investment company in which the Bank holds a 68% stake. In order to focus on its strategic businesses, the Bank has announced its intention to exit from its non-core operations. As of 30 June 2013, the Bank still held Teliani Valley, a Georgian wine producer, through Liberty Consumer. The Bank intends to sell this remaining asset in the due course.

BNB

GEL thousands, unless otherwise noted	**1H 2013**	**1H 2012**	**Change Y-O-Y**
Net interest income	8,370	5,494	52.3%
Net fee and commission income	2,802	1,494	87.6%
Net gain from foreign currencies, adjusted for one of fx gain	1,388	812	70.9%
Other operating non-interest income	43	92	-53.3%
Revenue, adjusted for one-off currency gain	***12,603***	***7,984***	***59.7%***
One-off foreign currency gain	***-***	***2,949***	***-100.0%***
Revenue	**12,603**	**10,841**	**16.3%**
Operating expenses	(6,688)	(4,738)	41.2%
Operating income before cost of credit risk	**5,915**	**6,103**	**-3.1%**
Cost of credit risk	(626)	(1,265)	-50.5%
Net non-operating expense	(790)	(210)	NMF
Profit before Income tax expense	**4,499**	**4,628**	**-2.8%**
Income tax expense	(1,239)	(1,152)	7.6%
Profit	**3,260**	**3,476**	**-6.2%**
Cost to Income ratio	53.1%	43.7%	

Through BNB, the Bank provides Retail Banking and Corporate Banking services in Belarus. BNB reported solid net interest income and net fee and commission income, up 52.3% y-o-y and 87.6% y-o-y, respectively. As a result, revenue adjusted for one off foreign currency gain increased by 59.7% y-o-y to GEL 12.6 million. BNB's net loan book more than doubled to GEL 157.1 million compared to the same period last year, while client deposits increased 24.8% y-o-y to GEL 100.6 million. As of 30 June 2013, BNB's total assets stood at GEL 230.3 million, net loan book at GEL 157.1 million, client deposits at GEL 100.6 million and equity at GEL 49.6 million, representing 4.1%, 5.0%, 3.5% and 4.5% of the Bank's total assets, loan book, client deposits and equity, respectively.

SELECTED FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

GEL thousands, unless otherwise noted	**1H 2013** *Unaudited*	**1H 2012** *Unaudited*	**Change** **Y-O-Y**
Loans to customers	260,047	244,965	6.2%
Investment securities	17,642	17,806	-0.9%
Amounts due from credit institutions	4,945	9,624	-48.6%
Finance lease receivables	3,208	4,133	-22.4%
Interest income	**285,842**	**276,528**	**3.4%**
Amounts due to customers	(85,538)	(103,765)	-17.6%
Amounts due to credit institutions	(49,625)	(34,047)	45.8%
Interest expense	**(135,163)**	**(137,812)**	**-1.9%**
Net interest income before interest rate swaps	**150,679**	**138,716**	**8.6%**
Net loss from interest rate swaps	(185)	(1,053)	-82.4%
Net interest income	**150,494**	**137,663**	**9.3%**
Fee and commission income	54,898	51,477	6.6%
Fee and commission expense	(12,622)	(9,944)	26.9%
Net fee and commission income	**42,276**	**41,533**	**1.8%**
Net insurance premiums earned	64,289	32,383	98.5%
Net insurance claims incurred	(41,565)	(20,426)	103.5%
Net insurance revenue	**22,724**	**11,957**	**90.0%**
Healthcare revenue	27,489	22,587	21.7%
Cost of healthcare services	(18,498)	(13,391)	38.1%
Net healthcare revenue	**8,991**	**9,196**	**-2.2%**
Net gain from trading and investment securities	2,590	953	171.8%
Net gain from revaluation of investment property	4,842	-	-
Net gain from foreign currencies	21,677	26,191	-17.2%
Other operating income	9,082	11,492	-21.0%
Other operating non-interest income	**38,191**	**38,636**	**-1.2%**
Revenue	**262,676**	**238,985**	**9.9%**
Salaries and other employee benefits	(65,077)	(57,829)	12.5%
General and administrative expenses	(29,764)	(33,762)	-11.8%
Depreciation and amortization expenses	(13,339)	(13,919)	-4.2%
Other operating expenses	(1,441)	(3,554)	-59.5%
Operating expenses	**(109,621)**	**(109,064)**	**0.5%**
Operating income before cost of credit risk	**153,055**	**129,921**	**17.8%**
Cost of credit risk	**(36,261)**	**(13,947)**	**160.0%**
Net operating income	**116,794**	**115,974**	**0.7%**
Net non-operating expense	(5,453)	(12,393)	-56.0%
Profit before income tax expense	**111,341**	**103,581**	**7.5%**
Income tax expense	(16,239)	(17,542)	-7.4%
Profit	**95,102**	**86,039**	**10.5%**
Attributable to:			
– shareholders of the Group	*91,735*	*84,212*	*8.9%*
– non-controlling interests	*3,367*	*1,827*	*85.1%*
Earnings per share (basic)	**2.70**	**2.57**	**5.1%**
Earnings per share (diluted)	**2.70**	**2.52**	**7.1%**

CONSOLIDATED INCOME STATEMENT

GEL thousands, unless otherwise noted	**Q2 2013** ***Unaudited***	**Q2 2012** ***Unaudited***	**Change Y-O-Y**	**Q1 2013** ***Unaudited***	**Change Q-O-Q**
Loans to customers	130,589	126,541	3.2%	129,458	0.9%
Investment securities	9,634	7,983	20.7%	8,007	20.3%
Amounts due from credit institutions	2,330	5,411	-56.9%	2,615	-10.9%
Finance lease receivables	1,709	2,120	-19.4%	1,500	13.9%
Interest income	**144,262**	**142,055**	**1.6%**	**141,580**	**1.9%**
Amounts due to customers	(41,620)	(49,931)	-16.6%	(43,918)	-5.2%
Amounts due to credit institutions	(24,636)	(15,339)	60.6%	(24,990)	-1.4%
Interest expense	**(66,255)**	**(65,269)**	**1.5%**	**(68,908)**	**-3.9%**
Net interest income before interest rate swaps	**78,007**	**76,786**	**1.6%**	**72,672**	**7.3%**
Net loss from interest rate swaps	(109)	(285)	-61.8%	(76)	43.4%
Net interest income	**77,898**	**76,501**	**1.8%**	**72,596**	**7.3%**
Fee and commission income	28,337	27,355	3.6%	26,562	6.7%
Fee and commission expense	(6,558)	(5,537)	18.4%	(6,066)	8.1%
Net fee and commission income	**21,779**	**21,818**	**-0.2%**	**20,496**	**6.3%**
Net insurance premiums earned	32,545	19,896	63.6%	31,744	2.5%
Net insurance claims incurred	(21,547)	(12,613)	70.8%	(20,018)	7.6%
Net insurance revenue	**10,998**	**7,283**	**51.0%**	**11,726**	**-6.2%**
Healthcare revenue	14,419	12,327	17.0%	13,070	10.3%
Cost of healthcare services	(9,319)	(7,908)	17.8%	(9,179)	1.5%
Net healthcare revenue	**5,100**	**4,419**	**15.4%**	**3,891**	**31.1%**
Net gain from trading and investment securities	1,306	157	NMF	1,284	1.7%
Net gain from revaluation of investment property	4,842	-	-	-	-
Net gain from foreign currencies	12,225	11,833	3.3%	9,452	29.3%
Other operating income	5,552	7,131	-22.1%	3,531	57.2%
Other operating non-interest income	**23,925**	**19,121**	**25.1%**	**14,267**	**67.7%**
Revenue	**139,700**	**129,142**	**8.2%**	**122,976**	**13.6%**
Salaries and other employee benefits	(32,575)	(32,000)	1.8%	(32,501)	0.2%
General and administrative expenses	(15,707)	(17,997)	-12.7%	(14,057)	11.7%
Depreciation and amortization expenses	(6,747)	(7,155)	-5.7%	(6,593)	2.3%
Other operating expenses	(711)	(1,602)	-55.6%	(729)	-2.5%
Operating expenses	**(55,740)**	**(58,754)**	**-5.1%**	**(53,880)**	**3.5%**
Operating income before cost of credit risk	**83,960**	**70,388**	**19.3%**	**69,096**	**21.5%**
Cost of credit risk	**(18,984)**	**(6,568)**	**189.0%**	**(17,278)**	**9.9%**
Net operating income	**64,976**	**63,820**	**1.8%**	**51,818**	**25.4%**
Net non-operating expense	(4,089)	(7,994)	-48.8%	(1,365)	199.6%
Profit before income tax expense	**60,887**	**55,826**	**9.1%**	**50,453**	**20.7%**
Income tax expense	(7,782)	(9,495)	-18.0%	(8,456)	-8.0%
Profit from continuing operations	**53,105**	**46,331**	**14.6%**	**41,997**	**26.4%**
Net loss from discontinued operations	-	(55)	-100.0%	-	-
Profit	**53,105**	**46,276**	**14.8%**	41,997	**26.4%**
Attributable to:					
– shareholders of the Group	*51,138*	*45,072*	*13.5%*	*40,597*	*26.0%*
– non-controlling interests	*1,967*	*1,204*	*63.4%*	*1,400*	*40.5%*
Earnings per share (basic)	**1.51**	**1.33**	**13.5%**	**1.19**	**26.9%**
Earnings per share (diluted)	**1.51**	**1.33**	**13.5%**	**1.19**	**26.9%**

CONSOLIDATED BALANCE SHEET

GEL thousands, unless otherwise noted	**Jun 13** *Unaudited*	**Jun 12** *Unaudited*	**Change Y-O-Y**	**Mar 13** *Unaudited*	**Change Q-O-Q**
Cash and cash equivalents	547,404	374,995	46.0%	696,590	-21.4%
Amounts due from credit institutions	326,537	342,145	-4.6%	349,196	-6.5%
Investment securities	644,237	414,584	55.4%	511,450	26.0%
Loans to customers and finance lease receivables	3,122,916	2,923,140	6.8%	2,954,724	5.7%
Investments in associates	-	2,865	-100.0%	2,441	-100.0%
Investment property	169,722	138,639	22.4%	163,458	3.8%
Property and equipment	447,205	407,428	9.8%	439,941	1.7%
Goodwill	45,657	45,291	0.8%	45,657	0.0%
Intangible assets	24,039	20,313	18.3%	22,916	4.9%
Income tax assets	15,941	23,889	-33.3%	17,889	-10.9%
Prepayments	30,205	36,321	-16.8%	32,219	-6.3%
Other assets	297,831	205,404	45.0%	297,377	0.2%
Total assets	**5,671,694**	**4,935,014**	**14.9%**	**5,533,858**	**2.5%**
Amounts due to customers, of which:	2,850,234	2,846,263	0.1%	2,817,677	1.2%
Client deposits	*2,838,153*	*2,742,601*	*3.5%*	*2,807,064*	*1.1%*
Promissory notes	*12,081*	*103,662*	*-88.3%*	*10,613*	*13.8%*
Amounts due to credit institutions	1,475,686	875,928	68.5%	1,355,027	8.9%
Income tax liabilities	57,411	55,762	3.0%	55,447	3.5%
Provisions	483	460	5.0%	991	-51.3%
Other liabilities	184,975	199,207	-7.1%	194,901	-5.1%
Total liabilities	**4,568,789**	**3,977,620**	**14.9%**	**4,424,043**	**3.3%**
Share capital	903	922	-2.1%	905	-0.2%
Additional paid-in capital	19,645	-	-	19,765	-0.6%
Treasury shares	(50)	(66)	-24.2%	(47)	6.4%
Other reserves	39,209	11,511	NMF	14,421	171.9%
Retained earnings	988,885	899,934	9.9%	1,022,301	-3.3%
Total equity attributable to shareholders of the Group	**1,048,592**	**912,301**	**14.9%**	**1,057,345**	**-0.8%**
Non-controlling interests	54,313	45,093	20.4%	52,470	3.5%
Total equity	**1,102,905**	**957,394**	**15.2%**	**1,109,815**	**-0.6%**
Total liabilities and equity	**5,671,694**	**4,935,014**	**14.9%**	**5,533,858**	**2.5%**
Book value per share	**30.90**	**27.37**	**12.9%**	**31.04**	**-0.5%**

CONSOLIDATED INCOME STATEMENT

	USD			GBP		
	1H 2013	1H 2012	Change	1H 2013	1H 2012	Change
Thousands, unless otherwise noted	*Unaudited*	*Unaudited*	Y-O-Y	*Unaudited*	*Unaudited*	Y-O-Y
Loans to customers	157,518	148,906	5.8%	103,357	95,403	8.3%
Investment securities	10,686	10,824	-1.3%	7,012	6,935	1.1%
Amounts due from credit institutions	2,995	5,850	-48.8%	1,965	3,748	-47.6%
Finance lease receivables	1,944	2,512	-22.6%	1,276	1,609	-20.7%
Interest income	**173,143**	**168,092**	**3.0%**	**113,610**	**107,695**	**5.5%**
Amounts due to customers	(51,813)	(63,075)	-17.9%	(33,998)	(40,412)	-15.9%
Amounts due to credit institutions	(30,059)	(20,696)	45.2%	(19,724)	(13,260)	48.7%
Interest expense	**(81,872)**	**(83,771)**	**-2.3%**	**(53,722)**	**(53,672)**	**0.1%**
Net interest income before interest rate swaps	**91,271**	**84,321**	**8.2%**	**59,888**	**54,023**	**10.9%**
Net loss from interest rate swaps	(112)	(640)	-82.5%	(73)	(410)	-82.2%
Net interest income	**91,159**	**83,681**	**8.9%**	**59,815**	**53,613**	**11.6%**
Fee and commission income	33,253	31,291	6.3%	21,820	20,048	8.8%
Fee and commission expense	(7,645)	(6,045)	26.5%	(5,017)	(3,873)	29.6%
Net fee and commission income	**25,608**	**25,246**	**1.4%**	**16,803**	**16,175**	**3.9%**
Net insurance premiums earned	38,942	19,685	97.8%	25,552	12,612	102.6%
Net insurance claims incurred	(25,177)	(12,417)	102.8%	(16,520)	(7,955)	107.7%
Net insurance revenue	**13,765**	**7,268**	**89.4%**	**9,032**	**4,657**	**93.9%**
Healthcare revenue	16,651	13,730	21.3%	10,926	8,797	24.2%
Cost of healthcare services	(11,205)	(8,140)	37.7%	(7,352)	(5,216)	41.0%
Net healthcare revenue	**5,446**	**5,590**	**-2.6%**	**3,574**	**3,581**	**-0.2%**
Net gain from trading and investment securities	1,569	579	171.0%	1,029	371	177.4%
Net gain from revaluation of investment property	2,933	-	-	1,924	-	-
Net gain from foreign currencies	13,130	15,921	-17.5%	8,616	10,200	-15.5%
Other operating income	5,501	6,986	-21.3%	3,609	4,477	-19.4%
Other operating non-interest income	**23,133**	**23,486**	**-1.5%**	**15,178**	**15,048**	**0.9%**
Revenue	**159,111**	**145,271**	**9.5%**	**104,402**	**93,074**	**12.2%**
Salaries and other employee benefits	(39,419)	(35,152)	12.1%	(25,865)	(22,522)	14.8%
General and administrative expenses	(18,029)	(20,523)	-12.2%	(11,830)	(13,149)	-10.0%
Depreciation and amortization expenses	(8,080)	(8,461)	-4.5%	(5,302)	(5,421)	-2.2%
Other operating expenses	(873)	(2,160)	-59.6%	(572)	(1,384)	-58.7%
Operating expenses	**(66,401)**	**(66,296)**	**0.2%**	**(43,569)**	**(42,476)**	**2.6%**
Operating income before cost of credit risk	**92,710**	**78,975**	**17.4%**	**60,833**	**50,598**	**20.2%**
Cost of credit risk	**(21,964)**	**(8,478)**	**159.1%**	**(14,412)**	**(5,432)**	**165.3%**
Net operating income	**70,746**	**70,497**	**0.4%**	**46,421**	**45,166**	**2.8%**
Net non-operating expense	(3,303)	(7,534)	-56.2%	(2,168)	(4,826)	-55.1%
Profit before income tax expense	**67,443**	**62,963**	**7.1%**	**44,253**	**40,340**	**9.7%**
Income tax expense	(9,837)	(10,663)	-7.7%	(6,454)	(6,832)	-5.5%
Profit	**57,606**	**52,300**	**10.2%**	**37,799**	**33,508**	**12.8%**
Attributable to:						
– shareholders of the Group	*55,567*	*51,189*	*8.5%*	*36,461*	*32,796*	*11.2%*
– non-controlling interests	*2,039*	*1,111*	*84.4%*	*1,338*	*712*	*89.0%*
Earnings per share (basic)	**1.64**	**1.56**	**5.1%**	**1.07**	**1.00**	**7.0%**
Earnings per share (diluted)	**1.64**	**1.53**	**7.2%**	**1.07**	**0.98**	**9.2%**

CONSOLIDATED INCOME STATEMENT

			USD					GBP		
	Q2 2013	**Q2 2012**	**Change**	**Q1 2013**	**Change**	**Q2 - 2013**	**Q2 - 2012**	**Change**	**Q1 - 2013**	**Cha**
Thousands, unless otherwise noted	***Unaudited***	***Unaudited***	**Y-O-Y**	***Unaudited***	**Q-O-Q**	***Unaudited***	***Unaudited***	**Y-O-Y**	***Unaudited***	**Q-O**
Loans to customers	79,102	76,920	2.8%	78,095	1.3%	51,903	49,282	5.3%	51,395	1
Investment securities	5,836	4,853	20.3%	4,830	20.8%	3,829	3,109	23.2%	3,179	20
Amounts due from credit institutions	1,411	3,289	-57.1%	1,577	-10.5%	926	2,107	-56.1%	1,038	-10
Finance lease receivables	1,035	1,288	-19.6%	905	14.4%	680	826	-17.7%	595	14
Interest income	**87,384**	**86,350**	**1.2%**	**85,407**	**2.3%**	**57,338**	**55,324**	**3.6%**	**56,207**	**2.**
Amounts due to customers	(25,210)	(30,351)	-16.9%	(26,493)	-4.8%	(16,542)	(19,446)	-14.9%	(17,435)	-5
Amounts due to credit institutions	(14,923)	(9,324)	60.0%	(15,075)	-1.0%	(9,792)	(5,974)	63.9%	(9,921)	-1
Interest expense	**(40,133)**	**(39,675)**	**1.2%**	**(41,568)**	**-3.5%**	**(26,333)**	**(25,419)**	**3.6%**	**(27,356)**	**-3.**
Net interest income before interest rate swaps	**47,251**	**46,676**	**1.2%**	**43,839**	**7.8%**	**31,004**	**29,905**	**3.7%**	**28,851**	**7.**
Net loss from interest rate swaps	(66)	(174)	-62.1%	(46)	43.5%	(43)	(111)	-61.3%	(30)	43
Net interest income	**47,185**	**46,502**	**1.5%**	**43,793**	**7.7%**	**30,961**	**29,794**	**3.9%**	**28,821**	**7.**
Fee and commission income	17,165	16,628	3.2%	16,023	7.1%	11,263	10,654	5.7%	10,545	6
Fee and commission expense	(3,973)	(3,366)	18.0%	(3,659)	8.6%	(2,607)	(2,157)	20.9%	(2,408)	8
Net fee and commission income	**13,192**	**13,262**	**-0.5%**	**12,364**	**6.7%**	**8,656**	**8,497**	**1.9%**	**8,137**	**6.**
Net insurance premiums earned	19,713	12,094	63.0%	19,149	2.9%	12,935	7,749	66.9%	12,602	2
Net insurance claims incurred	(13,051)	(7,667)	70.2%	(12,075)	8.1%	(8,564)	(4,913)	74.3%	(7,947)	7
Net insurance revenue	**6,662**	**4,427**	**50.5%**	**7,074**	**-5.8%**	**4,371**	**2,836**	**54.1%**	**4,655**	**-6.**
Healthcare revenue	8,734	7,493	16.6%	7,884	10.8%	5,731	4,801	19.4%	5,189	10
Cost of healthcare services	(5,645)	(4,807)	17.4%	(5,537)	2.0%	(3,704)	(3,080)	20.3%	(3,644)	1
Net healthcare revenue	**3,089**	**2,686**	**15.0%**	**2,347**	**31.6%**	**2,027**	**1,721**	**17.8%**	**1,545**	**31.**
Net gain from trading and investment securities	791	95	NMF	775	2.1%	519	61	NMF	510	1
Net gain from revaluation of	2,933	-	-	-	-	1,924	-	-	-	
Net gain from foreign currencies	7,405	7,193	2.9%	5,702	29.9%	4,859	4,608	5.4%	3,752	29
Other operating income	3,364	4,336	-22.4%	2,130	57.9%	2,208	2,778	-20.5%	1,401	57
Other operating non-interest income	**14,493**	**11,624**	**24.7%**	**8,607**	**68.4%**	**9,510**	**7,447**	**27.7%**	**5,663**	**67.**
Revenue	**84,621**	**78,501**	**7.8%**	**74,185**	**14.1%**	**55,525**	**50,295**	**10.4%**	**48,821**	**13.**
Salaries and other employee benefits	(19,732)	(19,452)	1.4%	(19,606)	0.6%	(12,947)	(12,463)	3.9%	(12,903)	0
General and administrative	(9,514)	(10,940)	-13.0%	(8,480)	12.2%	(6,243)	(7,009)	-10.9%	(5,581)	11
Depreciation and amortization expenses	(4,087)	(4,349)	-6.0%	(3,977)	2.8%	(2,682)	(2,787)	-3.8%	(2,617)	2
Other operating expenses	(431)	(974)	-55.7%	(440)	-2.0%	(283)	(623)	-54.6%	(289)	-2
Operating expenses	**(33,764)**	**(35,715)**	**-5.5%**	**(32,503)**	**3.9%**	**(22,155)**	**(22,882)**	**-3.2%**	**(21,390)**	**3.**
Operating income before cost of credit risk	**50,857**	**42,786**	**18.9%**	**41,682**	**22.0%**	**33,370**	**27,413**	**21.7%**	**27,431**	**21.**
Cost of credit risk	**(11,499)**	**(3,992)**	**188.1%**	**(10,423)**	**10.3%**	**(7,545)**	**(2,558)**	**195.0%**	**(6,859)**	**10.**
Net operating income	**39,358**	**38,794**	**1.5%**	**31,259**	**25.9%**	**25,825**	**24,855**	**3.9%**	**20,572**	**25.**
Net non-operating expense	(2,477)	(4,859)	-49.0%	(823)	NMF	(1,625)	(3,113)	-47.8%	(542)	199
Profit before Income tax	**36,881**	**33,935**	**8.7%**	**30,436**	**21.2%**	**24,200**	**21,742**	**11.3%**	**20,030**	**20.**
Income tax expense	(4,714)	(5,772)	-18.3%	(5,102)	-7.6%	(3,093)	(3,698)	-16.4%	(3,357)	-7
Profit from continuing operations	**32,167**	**28,163**	**14.2%**	**25,334**	**27.0%**	**21,107**	**18,044**	**17.0%**	**16,673**	**26.**
Net loss from discontinued operations	-	(33)	-100.0%	-	-	-	(22)	-100.0%	-	
Profit	**32,167**	**28,130**	**14.4%**	**25,334**	**27.0%**	**21,107**	**18,022**	**17.1%**	**16,673**	**26.**
Attributable to:										
– shareholders of the Group	*30,976*	*27,398*	*13.1%*	*24,489*	*26.5%*	*20,325*	*17,553*	*15.8%*	*16,117*	*26*
– non-controlling interests	*1,191*	*732*	*62.7%*	*845*	*40.9%*	*782*	*469*	*66.7%*	*556*	*40*
Earnings per share (basic)	**0.91**	**0.81**	**12.3%**	**0.72**	**26.4%**	**0.60**	**0.52**	**15.4%**	**0.47**	**27.**
Earnings per share (diluted)	**0.91**	**0.81**	**12.3%**	**0.72**	**26.4%**	**0.60**	**0.52**	**15.4%**	**0.47**	**27.**

CONSOLIDATED BALANCE SHEET

Thousands, unless otherwise noted	USD					GBP				
	Jun-13 *Unaudited*	**Jun-12** *Unaudited*	**Change Y-O-Y**	**Mar-13** *Unaudited*	**Change Q-O-Q**	**Jun-13** *Unaudited*	**Jun-12** *Unaudited*	**Change Y-O-Y**	**Mar-13** *Unaudited*	**Change Q-O-Q**
Cash and cash equivalents	331,579	227,947	45.5%	420,215	-21.1%	217,569	146,043	49.0%	276,545	-21.3%
Amounts due from credit institutions	197,793	207,978	-4.9%	210,651	-6.1%	129,784	133,250	-2.6%	138,630	-6.4%
Investment securities	390,234	252,011	54.8%	308,530	26.5%	256,056	161,461	58.6%	203,045	26.1%
Loans to customers and finance lease receivables	1,891,645	1,776,877	6.5%	1,782,424	6.1%	1,241,223	1,138,427	9.0%	1,173,022	5.8%
Investments in associates	-	1,742	-100.0%	1,473	-100.0%	-	1,116	-100.0%	969	-100.0%
Investment property	102,806	84,274	22.0%	98,605	4.3%	67,457	53,993	24.9%	64,893	4.0%
Property and equipment	270,886	247,662	9.4%	265,392	2.1%	177,744	158,674	12.0%	174,656	1.8%
Goodwill	27,656	27,531	0.5%	27,542	0.4%	18,147	17,639	2.9%	18,126	0.1%
Intangible assets	14,561	12,348	17.9%	13,824	5.3%	9,554	7,911	20.8%	9,098	5.0%
Income tax assets	9,656	14,521	-33.5%	10,791	-10.5%	6,336	9,304	-31.9%	7,102	-10.8%
Prepayments	18,296	22,078	-17.1%	19,436	-5.9%	12,005	14,145	-15.1%	12,791	-6.1%
Other assets	180,404	124,857	44.5%	179,392	0.6%	118,375	79,996	48.0%	118,057	0.3%
Total assets	**3,435,516**	**2,999,826**	**14.5%**	**3,338,275**	**2.9%**	**2,254,250**	**1,921,959**	**17.3%**	**2,196,934**	**2.6%**
Amounts due to customers, of which:	1,726,473	1,730,146	-0.2%	1,699,751	1.6%	1,132,844	1,108,488	2.2%	1,118,614	1.3%
Client deposits	1,719,155	1,667,133	3.1%	1,693,349	1.5%	1,128,042	1,068,116	5.6%	1,114,401	1.2%
Promissory notes	7,318	63,013	-88.4%	6,402	14.3%	4,802	40,372	-88.1%	4,213	14.0%
Amounts due to credit institutions	893,868	532,447	67.9%	817,414	9.4%	586,521	341,133	71.9%	537,944	9.0%
Income tax liabilities	34,776	33,896	2.6%	33,448	4.0%	22,818	21,717	5.1%	22,012	3.7%
Provisions	293	280	4.6%	598	-51.0%	192	179	7.3%	393	-51.1%
Other liabilities	112,044	121,090	-7.5%	117,573	-4.7%	73,519	77,581	-5.2%	77,376	-5.0%
Total liabilities	**2,767,454**	**2,417,859**	**14.5%**	**2,668,784**	**3.7%**	**1,815,894**	**1,549,098**	**17.2%**	**1,756,339**	**3.4%**
Share capital	547	560	-2.3%	546	0.2%	359	359	0.0%	359	0.0%
Additional paid-in capital	11,900	-	-	11,923	-0.2%	7,808	-	-	7,847	-0.5%
Treasury shares	(30)	(40)	-25.0%	(28)	7.1%	(20)	(26)	-23.1%	(19)	5.3%
Other reserves	23,749	6,998	NMF	8,700	173.0%	15,583	4,483	NMF	5,726	172.1%
Retained earnings	598,998	547,039	9.5%	616,698	-2.9%	393,039	350,483	12.1%	405,852	-3.2%
Total equity attributable to shareholders of the Group	**635,164**	**554,557**	**14.5%**	**637,839**	**-0.4%**	**416,769**	**355,299**	**17.3%**	**419,765**	**-0.7%**
Non-controlling interests	32,898	27,410	20.0%	31,652	3.9%	21,587	17,562	22.9%	20,830	3.6%
Total equity	668,062	581,967	14.8%	669,491	-0.2%	438,356	372,861	17.6%	440,595	-0.5%
Total liabilities and equity	**3,435,516**	**2,999,826**	**14.5%**	**3,338,275**	**2.9%**	**2,254,250**	**1,921,959**	**17.3%**	**2,196,934**	**2.6%**
Book Value per share	**18.72**	**16.64**	**12.5%**	**18.72**	**0.0%**	**12.28**	**10.66**	**15.2%**	**12.32**	**-0.3%**

ALDAGI INCOME STATEMENT

GEL thousands, unless otherwise noted	1H 2013 Unaudited	1H 2012 Unaudited	Change Y-O-Y
Gross premiums written (GPW)	**64,588**	**48,829**	**32.3%**
Gross premiums earned	**72,549**	**41,540**	**74.6%**
Net insurance premiums earned	65,556	33,387	96.4%
Net insurance claims incurred	(41,565)	(20,426)	103.5%
Net insurance revenue	**23,991**	**12,961**	**85.1%**
Healthcare revenue	27,489	22,587	21.7%
Cost of healthcare services	(18,498)	(13,391)	38.1%
Net healthcare revenue	**8,991**	**9,196**	**-2.2%**
Net interest expense and other	**(3,713)**	**(400)**	**NMF**
Revenue	**29,269**	**21,757**	**34.5%**
Operating expenses	(14,444)	(13,835)	4.4%
Operating income before cost of credit risk	**14,825**	**7,922**	**87.1%**
Cost of credit risk	(1,420)	(237)	NMF
Profit before Income tax expense	**13,405**	**7,685**	**74.4%**
Income tax expense	(1,958)	(1,153)	69.8%
Profit	**11,447**	**6,532**	**75.2%**

GEL thousands, unless otherwise noted	Q2 2013 Unaudited	Q2 2012 Unaudited	Change Y-O-Y	Q1 2013 Unaudited	Change Q-O-Q
Gross premiums written (GPW)	**26,761**	**28,937**	**-7.5%**	**37,827**	**-29.3%**
Gross premiums earned	**36,338**	**25,105**	**44.7%**	**36,211**	**0.4%**
Net insurance premiums earned	33,042	20,404	61.9%	32,514	1.6%
Net insurance claims incurred	(21,547)	(11,727)	83.7%	(20,018)	7.6%
Net insurance revenue	**11,495**	**8,677**	**32.5%**	**12,496**	**-8.0%**
Healthcare revenue	14,419	12,327	17.0%	13,070	10.3%
Cost of healthcare services	(9,319)	(7,908)	17.8%	(9,179)	1.5%
Net healthcare revenue	**5,100**	**4,419**	**15.4%**	**3,891**	**31.1%**
Net interest expense and other	**(1,724)**	**(2,702)**	**-36.2%**	**(1,989)**	**-13.3%**
Revenue	**14,871**	**10,394**	**43.1%**	**14,398**	**3.3%**
Operating expenses	(7,060)	(5,853)	20.6%	(7,384)	-4.4%
Operating income before cost of credit risk	**7,811**	**4,541**	**72.0%**	**7,014**	**11.4%**
Cost of credit risk	(561)	(193)	190.7%	(859)	-34.7%
Net non-operating income	-	72	-100.0%	-	-
Profit before Income tax expense	**7,250**	**4,420**	**64.0%**	**6,155**	**17.8%**
Income tax expense	(1,031)	(596)	73.0%	(927)	11.2%
Profit	**6,219**	**3,824**	**62.6%**	**5,228**	**19.0%**

KEY RATIOS	**1H 2013**	**1H 2012**
Profitability		
ROAA, Annualised[1]	3.4%	3.7%
ROAE, Annualised[2]	17.6%	19.6%
Net Interest Margin, Annualised[3]	7.7%	8.2%
Loan Yield, Annualised[4]	16.8%	17.8%
Cost of Funds, Annualised[5]	6.4%	7.9%
Cost of Client Deposits, Annualised	6.2%	7.7%
Cost of Amounts Due to Credit Institutions, Annualised	7.0%	8.5%
Operating Leverage, Y-O-Y[6]	9.4%	6.6%
Efficiency		
Cost / Income[7]	41.7%	45.6%
Liquidity		
NBG Liquidity ratio[8]	44.8%	35.2%
Liquid Assets To Total Liabilities[9]	33.3%	28.5%
Net Loans To Customer Funds	109.6%	102.7%
Net Loans To Customer Funds + DFIs[10]	90.0%	86.5%
Leverage (Times)[11]	4.1	4.2
Asset Quality:		
NPLs (in GEL)	131,960	100,121
NPLs To Gross Loans To Clients	4.1%	3.3%
NPL Coverage ratio[12]	89.1%	115.2%
NPL Coverage ratio (adjusted for discounted value of collateral) [13]	117.4%	148.0%
Cost of risk, Annualised[14]	1.5%	0.9%
Capital Adequacy:		
BIS Tier I Capital Adequacy ratio, consolidated[15]	22.9%	21.9%
BIS Total Capital Adequacy ratio, consolidated[16]	27.8%	28.1%
NBG Tier I Capital Adequacy ratio[17]	15.4%	15.0%
NBG Total Capital Adequacy ratio[18]	16.3%	17.8%
Per Share Values:		
Basic EPS (GEL)[19]	**2.70**	**2.57**
Diluted EPS (GEL)	**2.70**	**2.52**
Book Value per share (GEL)[20]	**30.90**	**27.37**
Ordinary shares outstanding – weighted average, basic[21]	34,030,799	32,807,562
Ordinary share outstanding - weighted average, diluted[22]	34,030,799	33,866,108
Ordinary shares outstanding - period end, basic[23]	33,936,007	33,332,636
Treasury shares outstanding - period end[24]	(1,973,376)	(2,576,747)
Selected Operating Data:		
Full Time Employees, Group, Of Which:	11,507	10,538
- Full Time Employees, BOG Stand-Alone	*3,692*	*3,533*
- Full time employees, Aldagi Insurance	*617*	*656*
- Full time employees, Aldagi Healthcare	*6,027*	*5,318*
- Full time employees, BNB	*365*	*280*
- Full time employees, Other	*806*	*751*
Total Assets Per FTE, BOG Stand-Alone (in GEL thousands)	1,536	1,397
Number Of Active Branches, Of Which:	197	179
- Flagship branches	*34*	*34*
- Standard branches	*100*	*95*
- Express Branches (including Metro)	*63*	*50*
Number Of ATMs	481	459
Number Of Cards Outstanding, Of Which:	909,309	745,295
- Debit cards	*797,492*	*600,431*
- Credit cards	*111,817*	*144,864*
Number Of POS Terminals	4,259	3,233

OTHER RATIOS	1H 2013	1H 2012
Profitability Ratios:		
ROE, Annualised,	17.6%	18.6%
Interest Income / Average Int. Earning Assets, Annualised[25]	14.7%	16.4%
Net F&C Inc. To Av. Int. Earn. Ass., Annualised	2.0%	2.2%
Net Fee And Commission Income To Revenue	16.1%	17.4%
Operating Leverage, Y-O-Y	9.4%	6.6%
Revenue to Total Assets, Annualised	9.3%	9.7%
Recurring Earning Power, Annualised[26]	5.5%	5.6%
Profit To Revenue	36.2%	36.0%
Efficiency Ratios:		
Operating Cost to Av. Total Ass., Annualised	4.0%	4.7%
Cost to Average Total Assets, Annualised	4.2%	5.2%
Personnel Cost to Revenue	24.8%	24.2%
Personnel Cost to Operating Cost	59.4%	53.0%
Personnel Cost to Average Total Assets, Annualised	2.3%	2.5%
Liquidity Ratios:		
Liquid Assets To Total Assets	26.8%	22.9%
Net Loans to Total Assets	55.1%	59.2%
Average Net Loans to Average Total Assets	54.4%	57.7%
Interest Earning Assets to Total Assets	78.2%	79.8%
Average Interest Earning Assets/Average Total Assets	78.0%	80.2%
Net Loans to Client Deposits	110.0%	106.6%
Average Net Loans to Av. Client Deposits	109.9%	105.0%
Net Loans to Total Deposits	99.5%	99.1%
Net Loans to (Total Deposits + Equity)	73.6%	74.8%
Net Loans to Total Liabilities	68.4%	73.5%
Total Deposits to Total Liabilities	68.7%	74.2%
Client Deposits to Total Deposits	90.4%	92.9%
Client Deposits to Total Liabilities	62.1%	69.0%
Total Deposits to Total Assets	55.3%	59.8%
Client Deposits to Total Assets	50.0%	55.6%
Client Deposits to Total Equity (Times)	2.6	2.9
Total Equity to Net Loans	35.3%	32.8%
Asset Quality:		
Reserve For Loan Losses to Gross Loans to Clients[27]	3.6%	3.8%
% of Loans to Clients collateralised	88.4%	86.9%
Equity to Average Net Loans to Clients	35.3%	32.8%

KEY RATIOS ALDAGI		
ROAA, Annualised	6.9%	6.2%
ROAE, Annualised	24.3%	25.6%
Loss Ratio[28]	70.1%	63.8%
Combined Ratio[29]	86.3%	89.5%

KEY RATIOS	Q2 2013	Q2 2012	Q1 2013
Profitability			
ROAA, Annualised[1]	3.8%	4.0%	3.1%
ROAE, Annualised[2]	19.3%	20.0%	15.9%
Net Interest Margin, Annualised[3]	7.9%	9.0%	7.6%
Loan Yield, Annualised[4]	16.9%	18.0%	16.9%
Cost of Funds, Annualised[5]	6.2%	7.5%	6.7%
Cost of Client Deposits, Annualised	5.9%	7.4%	6.4%
Cost of Amounts Due to Credit Institutions, Annualised	6.9%	7.7%	7.1%
Operating Leverage, Y-O-Y[6]	13.3%	-3.6%	4.9%
Efficiency			
Cost / Income[7]	39.9%	45.5%	43.8%
Liquidity			
NBG Liquidity Ratio[8]	44.8%	35.2%	44.1%
Liquid Assets To Total Liabilities[9]	33.3%	28.5%	35.2%
Net Loans To Customer Funds	109.6%	102.7%	104.9%
Net Loans To Customer Funds + DFIs[10]	90.0%	86.5%	85.2%
Leverage (Times)[11]	4.1	4.2	4.0
Asset Quality:			
NPLs (in GEL)	131,960	100,121	131,631
NPLs To Gross Loans To Clients	4.1%	3.3%	4.3%
NPL Coverage Ratio[12]	89.1%	115.2%	86.5%
NPL Coverage Ratio (adjusted for discounted value of collateral) [13]	117.4%	148.0%	111.1%
Cost of Risk, Annualised[14]	1.5%	0.9%	1.4%
Capital Adequacy:			
BIS Tier I Capital Adequacy Ratio, Consolidated[15]	22.9%	21.9%	23.2%
BIS Total Capital Adequacy Ratio, Consolidated[16]	27.8%	28.1%	28.2%
NBG Tier I Capital Adequacy Ratio[17]	15.4%	15.0%	16.8%
NBG Total Capital Adequacy Ratio[18]	16.3%	17.8%	17.1%
Per Share Values:			
Basic EPS (GEL)[19]	**1.51**	**1.33**	**1.19**
Diluted EPS (GEL)	**1.51**	**1.33**	**1.19**
Book Value per share (GEL)[20]	**30.90**	**27.37**	**31.04**
Ordinary Shares Outstanding - Weighted Average, Basic[21]	33,829,260	33,829,260	34,061,344
Ordinary Shares Outstanding - Weighted Average, Diluted[22]	33,829,260	33,829,260	34,061,344
Ordinary Shares Outstanding - Period End, Basic[23]	33,936,007	33,332,636	34,061,344
Treasury Shares Outstanding - Period End[24]	(1,973,376)	(2,576,747)	(1,848,039)
Selected Operating Data:			
Full time employees, Group, Of Which:	11,507	10,538	11,515
- Full time employees, BOG Stand-Alone	*3,692*	*3,533*	*3,750*
- Full time employees, Aldagi Insurance	*617*	*656*	*625*
- Full time employees, Aldagi Healthcare	*6,027*	*5,318*	*6,013*
- Full time employees, BNB	*365*	*280*	*332*
- Full time employees, Other	*806*	*751*	*795*
Total Assets Per FTE, BOG Stand-Alone (in GEL thousands)	1,536	1,397	1,476
Number Of Active Branches, Of Which:	197	179	194
- Flagship Branches	*34*	*34*	*34*
- Standard Branches	*100*	*95*	*98*
- Express Branches (including Metro)	*63*	*50*	*62*
Number Of ATMs	481	459	479
Number Of Cards Outstanding, Of Which:	909,309	745,295	838,610
- Debit cards	*797,492*	*600,431*	*727,019*
- Credit cards	*111,817*	*144,864*	*111,591*
Number Of POS Terminals	4,259	3,233	3,899

OTHER RATIOS	Q2 2013	Q2 2012	Q1 2013
Profitability Ratios:			
ROE, Annualised,	19.6%	19.9%	15.6%
Interest Income / Average Int. Earning Assets, Annualised[25]	14.6%	16.7%	14.8%
Net F&C Inc. To Av. Int. Earn. Assets, Annualised	2.0%	2.3%	1.9%
Net Fee And Commission Income To Revenue	15.6%	16.9%	16.7%
Operating Leverage, Q-O-Q	10.1%	0.8%	-4.0%
Revenue to Total Assets, Annualised	9.9%	10.5%	9.0%
Recurring Earning Power, Annualised[26]	6.0%	6.0%	5.1%
Profit To Revenue	38.0%	35.8%	34.2%
Efficiency Ratios:			
Operating Cost to Av. Total Ass., Annualised	4.0%	5.0%	3.9%
Cost to Average Total Assets, Annualised	4.3%	5.7%	4.1%
Personnel Cost to Revenue	23.3%	24.8%	26.4%
Personnel Cost to Operating Cost	58.4%	54.5%	60.3%
Personnel Cost to Average Total Assets, Annualised	2.3%	2.7%	2.4%
Liquidity Ratios:			
Liquid Assets To Total Assets	26.8%	22.9%	28.2%
Net Loans to Total Assets	55.1%	59.2%	53.4%
Average Net Loans to Average Total Assets	53.8%	58.9%	54.8%
Interest Earning Assets to Total Assets	78.2%	79.8%	77.6%
Average Interest Earning Assets/Average Total Assets	77.7%	79.8%	78.2%
Net Loans to Client Deposits	110.0%	106.6%	105.3%
Average Net Loans to Av. Client Deposits	107.2%	107.2%	111.5%
Net Loans to Total Deposits	99.5%	99.1%	99.8%
Net Loans to (Total Deposits + Equity)	73.6%	74.8%	72.6%
Net Loans to Total Liabilities	68.4%	73.5%	66.8%
Total Deposits to Total Liabilities	68.7%	74.2%	66.9%
Client Deposits to Total Deposits	90.4%	92.9%	94.8%
Client Deposits to Total Liabilities	62.1%	69.0%	63.5%
Total Deposits to Total Assets	55.3%	59.8%	53.5%
Client Deposits to Total Assets	50.0%	55.6%	50.7%
Client Deposits to Total Equity (Times)	2.6	2.9	2.5
Total Equity to Net Loans	35.3%	32.8%	37.6%
Asset Quality:			
Reserve For Loan Losses to Gross Loans to Clients[27]	3.6%	3.8%	3.7%
% of Loans to Clients collateralized	88.4%	86.9%	87.8%
Equity to Average Net Loans to Clients	35.3%	32.8%	37.6%

KEY RATIOS ALDAGI			
ROAA, Annualised	7.4%	6.3%	6.4%
ROAE, Annualised	24.9%	23.9%	23.8%
Loss Ratio[28]	71.5%	62.4%	68.8%
Combined Ratio[29]	85.8%	88.6%	82.0%

NOTES TO KEY RATIOS

1 Return On Average Total Assets (ROAA) equals Profit for the period divided by monthly Average Total Assets for the same period;
2 Return On Average Total Equity (ROAE) equals Profit for the period attributable to shareholders of the Bank divided by monthly Average Equity attributable to shareholders of the Bank for the same period;
3 Net Interest Margin equals Net Interest Income of the period (adjusted for the gains or losses from revaluation of interest rate swaps) divided by monthly Average Interest Earning Assets Excluding Cash for the same period; Interest Earning Assets Excluding Cash include: Amounts Due From Credit Institutions, Debt Investment and Trading Securities and Net Loans To Customers And Net Finance Lease Receivables;
4 Loan Yield equals Interest Income From Loans To Customers And Finance Lease Receivables divided by monthly Average Gross Loans To Customers And Finance Lease Receivables;
5 Cost Of Funds equals Interest Expense of the period (adjusted for the gains or losses from revaluation of interest rate swaps) divided by monthly Average Interest Bearing Liabilities; Interest Bearing Liabilities Include: Amounts Due To Credit Institutions and Amounts Due To Customers;
6 Operating Leverage equals percentage change in Revenue less percentage change in Operating expenses;
7 Cost / Income Ratio equals Operating expenses divided by Revenue;
8 Average liquid assets during the month (as defined by NBG) divided by selected average liabilities and selected average off-balance sheet commitments (both as defined by NBG);
9 Liquid Assets include: Cash And Cash Equivalents, Amounts Due From Credit Institutions, Investment Securities and Trading Securities;
10 Net loans divided by Customer Funds and Amounts Owned to Developmental Financial Institutions
11Leverage (Times) equals Total Liabilities divided by Total Equity;
12 NPL Coverage Ratio equals Allowance For Impairment Of Loans And Finance Lease Receivables divided by NPLs;
13 Cost Of Risk equals Impairment Charge for Loans To Customers And Finance Lease Receivables for the period divided by monthly average Gross Loans To Customers And Finance Lease Receivables over the same period;
14 NPL Coverage Ratio equals Allowance For Impairment Of Loans And Finance Lease Receivables divided by NPLs (Discounted value of collateral is added back to allowance for impairment);
15 BIS Tier I Capital Adequacy Ratio equals Tier I Capital divided by Risk Weighted Assets, both calculated in accordance with the requirements of Basel Accord I;
16 BIS Total Capital Adequacy Ratio equals Total Capital divided by Risk Weighted Assets, both calculated in accordance with the requirements of Basel Accord I;
17 NBG Tier I Capital Adequacy Ratio equals Tier I Capital divided by Risk Weighted Assets, both calculated in accordance with the requirements the National Bank of Georgia;
18 NBG Total Capital Adequacy Ratio equals Total Capital divided by Risk Weighted Assets, both calculated in accordance with the requirements of the National Bank of Georgia;
19 Basic EPS equals Profit for the period attributable to shareholders of the Bank divided by the weighted average number of outstanding ordinary shares, net of treasury shares over the same period;
20 Book Value per share equals Total Equity attributable to shareholders of the Bank divided by Net Ordinary Shares Outstanding at period end; Net Ordinary Shares Outstanding equals total number of Ordinary Shares Outstanding at period end less number of Treasury Shares at period end;
21 Weighted average number of ordinary shares equal average of monthly outstanding number of shares less monthly outstanding number of treasury shares;
22 Weighted average number of diluted ordinary shares equals weighted average number of ordinary shares plus weighted average number of dilutive shares during the same period;
23 Number of outstanding ordinary shares at period end;
24 Number of outstanding ordinary shares at period end less number of treasury shares;
25 Average Interest Earning Assets are calculated on a monthly basis; Interest Earning Assets Excluding Cash include: Amounts Due From Credit Institutions, Debt Investment and Trading Securities and Net Loans To Customers And Net Finance Lease Receivables;
26 Recurring Earning Power equals Operating Income Before Cost of Credit Risk for the period divided by monthly average Total Assets of the same period;
27 Reserve For Loan Losses To Gross Loans equals Allowance For Impairment Of Loans To Customers And Finance Lease Receivables divided by Gross Loans And Finance Lease Receivables;
28 Loss ratio is defined as net insurance claims incurred divided by net insurance premiums earned;
29 Combined ratio is sum of net insurance claims incurred and operating expenses divided by net insurance premiums earned.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Macroeconomic risks and political risks related to Georgia

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

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

The financial crisis was accompanied by a number of related developments, including an erosion of confidence in financial institutions, increased currency volatility, increased counterparty risk and the risk of systemic failures. Such circumstances have caused disruptions in financial markets worldwide, leading to liquidity and funding difficulties in the international banking system. Access to capital, the credit markets, foreign direct investment ("FDI") and other forms of liquidity was significantly impaired and the cost of financing for financial institutions increased considerably. As a result, the cost of borrowing in the wholesale debt markets increased for the Group, the debt capital markets were effectively closed or severely restricted to banks in emerging markets and certain international financial institutions owned by national governments, including the EBRD and the IFC, became the principal source of long-term funding for the Group. The financial crisis also had a significant adverse effect on the valuation of assets and the capital position of many financial institutions globally.

Although global markets showed signs of improvement in 2010, during 2011 there was turmoil in the European banking system and a deterioration of sovereign credit of a number of European countries including Greece, Ireland, Italy, Spain, Portugal and Cyprus. In addition, during 2012 and in the first half of 2013, there were concerns that these countries may experience "double-dip" or prolonged recessions and economic conditions continued to be volatile. These developments have created an unfavourable environment for the banking sector globally and in Georgia and could have a material adverse effect on the Group's business, financial condition and results of operations.

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

Georgia, which is bordered by Russia, Azerbaijan, Armenia and Turkey, could be adversely affected by political unrest within its borders and in surrounding countries. In particular, Georgia has had ongoing disputes in the breakaway regions of Abkhazia and the Tskhinvali Region/South Ossetia and with Russia since the restoration of its independence in 1991. These disputes have led to sporadic violence and breaches of peace-keeping operations. 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, Russia recognised independence of the breakaway regions and Russian troops continue to occupy Abkhazia and the Tskhinvali Region/South Ossetia and tensions continue. In addition, relations between Georgia's neighbours, Azerbaijan and Armenia, remain tense and there are sporadic instances of violence between these two countries. Russia is opposed to the eastward enlargement of the North Atlantic Treaty Organisation, potentially including ex-Soviet republics, such as Georgia. The Georgian government has taken certain steps towards improving relations with Russia, however these have not currently resulted in any formal or legal changes in the relationship between the two countries. Any future deterioration or worsening of Georgia's relationship with Russia, including in relation to border and territorial disputes, any major changes in Georgia's relations with Western governments and institutions (in particular in terms of national security), any changes in Georgia's importance to Western energy supplies, any changes in the amount of aid granted to Georgia or the ability of Georgian manufacturers to access world export markets, or a significant deterioration in relations between

Azerbaijan and Armenia, may have a negative effect on the political and economic stability of Georgia, which 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

For the six months ended 30 June 2013, 96.6% of the Group's total consolidated profit was derived from its business in Georgia. 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 condition of companies, have a material impact on loan losses, margins and customer demand for the Group's products and services, which materially affects the Group's business, financial condition and results of operations.

Georgia's main economic activities include tourism, transit services, agriculture, mining, metals, machinery and chemicals. The global economic downturn and the 2008 Conflict led to a decline in public spending and Georgia experienced a 57.9% reduction in FDI in 2009, compared to 2008, real GDP in Georgia declined by 3.8% in 2009 compared with growth of real GDP by 2.3% in 2008 (each according to Geostat) 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 net interest income 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 increasing interest rates on bank deposits resulting from increasing competition in the deposit market, which also had a negative impact on the net interest income earned by the Group. In addition, the quality of the Group's loan portfolio deteriorated as a result of the economic slowdown, which resulted in an increase in the Group's loans past due more than 90 days. NPLs, defined as loans past due more than 90 days and any additional losses estimated by the management declined from GEL 100.9 million at 30 June 2011 to GEL 100.1 million as at 30 June 2012 and then increased to GEL 132.0 million as at 30 June 2013. FDI decreased by 22.6% year-on-year to US$0.9 billion for 2012 compared to 2011, and decreased by 16.0% year-on-year in the first quarter of 2013. The FDI figures published by Geostat for 2012 and the first quarter of 2013 are preliminary. The Georgian economy grew at a healthy rate in 2010, 2011 and 2012 with real GDP growth of 6.3%, 7.2% and 6.1%, respectively. However, the economy started to show signs of slowdown in the first half of 2013, growing just 1.8% according to the preliminary figures. There can be no assurance that the Georgian economy will recover or that it will not undergo a further deterioration.

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

In addition, the Georgian economy is highly dollarised. Prior to 2008, the dollarisation rate of the banking system (defined as foreign currency deposits as a share of total deposits) had declined with foreign currency deposits accounting for approximately 64.4% of all client deposits as at 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 at 1 January 2009, although it has since decreased to approximately 68.8% as at 1 January 2010, 67.0% as at 1 January 2011, 59.2% as at 1 January 2012 and increased to 63.8% as at 1 January 2013. As of 1 July 2013, the dollarisation rate decreased to 61.5%. Although the NBG has adopted measures to support the development of Georgia's domestic money markets, the dollarisation rate could adversely impact on the effectiveness of the implementation of the NBG's monetary and exchange rate policies, which could negatively impact the purchasing power of the Lari, restrict future growth in the GDP of Georgia and depress Georgia's investment climate. Any of these effects could, in turn, 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 2012, the total volume of trading turnover in the Lari-US dollar and Lari-Euro markets (excluding activities of the NBG) amounted to US$14.4 billion and €5.0 billion, respectively. According to the NBG, the NBG had US$2.8 billion in gross official reserves as at 30 June 2012 and US$3.0 billion as at 30 June 2013. While the Government of Georgia has stated that these reserves will be sufficient to sustain the domestic currency market in the short term, a lack of growth of this currency market may hamper the development of Georgia's economy, which could have a material adverse effect on the businesses of the Group's corporate customers and, in turn, a material adverse effect on the Group.

In addition, a lack of stability in the currency market may adversely affect Georgia's economy. There was significant instability in the Lari to US dollar exchange rate following the Russian financial crisis of August 1998 and again following the 2008 Conflict. In November 2008, the NBG devalued the Lari by 16.1%, a measure aimed at alleviating the negative impact of the global financial crisis on the Georgian economy. While the Lari generally appreciated against the US dollar and other major international currencies from 2001 to 2008, the Lari then generally depreciated against the US dollar and other major international currencies until April 2011, since then the exchange rate has remained stable. The Lari/US dollar exchange rate was 1.7728 as at 31 December 2010, 1.6703 as at 31 December 2011, 1.6567 as at 31 December 2012 and 1.6509 as at 30 June 2013. The ability of the Government of Georgia and the NBG to limit any volatility of the Lari will depend on a number of political and economic factors, including the NBG's and the Government's ability to control inflation, the availability of foreign currency reserves and FDI and other currency inflows. Any failure to do so, or a major depreciation or further devaluation of the Lari, could adversely affect Georgia's economy. According to the information provided by Geostat, annual inflation in Georgia, as measured by the end-of-period CPI in Georgia was -1.4% in 2012, 2.0% in 2011 and 11.2% in 2010. Inflation rose in the first half of 2011, reaching 14.3% at 31 May 2011, but then decreased to 2.0% at 31 December 2011. This declining trend continued throughout 2012 with inflation turning into 1.4% deflation at 31 December 2012. As of 30 June 2013, inflation was 0.2%. There is no guarantee that the country will continue to remain unaffected by global increases in food prices. High and sustained inflation could lead to market instability, a financial crisis, a reduction in consumer purchasing power and erosion of consumer confidence. On the other hand, deflation, whilst increasing the purchasing power of the Lari, can adversely affect foreign investment and the Group's profitability in its lending activities. Any of these events could lead to a deterioration in the performance of Georgia's economy and negatively affect the businesses of the Group's customers which could, in turn, have an adverse effect on the Group.

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

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

At the most recent Georgian Parliamentary elections (which were held on 1 October 2012) the Georgian Dream coalition won the election by a majority of seats. The Georgian Dream coalition is generally seen to be business and investor friendly and to date, has remained committed to major economic and fiscal policies in place that are designed to liberalise the Georgian economy. The Georgian Dream coalition is led by Bidzina Ivanishvili, who was officially approved by the Parliament of Georgia (the "Parliament") as the country's new Prime Minister on 25 October 2012. Although the Georgian Dream Coalition won the 2012 Parliamentary elections and Bidzina Ivanishvili is the Prime Minister and head of government, the leader of the United National Movement Party, Mikheil Saakashvili, is President of Georgia and head of state. Pursuant to the provisions of Georgia's constitution (the "Constitution"), the Georgian President currently has the ability to veto legislation adopted by the Parliament. Georgia faces several challenges, one of which is the need to implement further economic and political reforms. However, there can be no assurance that these business and investor friendly reforms will continue or will not be reversed or that such reforms and economic growth will not be hindered as a result of any changes affecting the continuity or stability of the Georgian Dream coalition government or as a result of a rejection of reform policies by the President, the Parliament or otherwise.

Mikheil Saakashvili has served as President of Georgia for two terms, having first been elected in January 2004. The next presidential elections are scheduled to be held on 27 October 2013. However, pursuant to the provisions of the Constitution, President Saakashvili cannot stand for a third term in office and a new President of Georgia will therefore be elected in the forthcoming elections. If a single presidential candidate fails to win over 50% of the votes at the 27 October 2013 elections, the two candidates with the highest votes would compete against each other in a second round election process, which would likely be concluded within two weeks of the first round of elections. Should any protests or criticism arise in relation to the conduct or outcome of the 2013 Presidential election this may lead to political instability or disruption within Georgia.

Additionally, on 15 October 2010, the Parliament approved amendments to the Constitution which are intended to enhance the primary governing responsibility of the Parliament, increase the powers of the Prime Minister and reduce the powers of the Presidency. It is currently anticipated that the majority of these amendments to the Constitution will become effective after the 2013 Presidential election. It is also expected that further amendments to the Constitution will be made prior to the 2013 Presidential election. Currently, the State Constitutional Commission of Georgia has started discussions on amendments that are designed to further reduce the powers of the Prime Minister and increase those of the Parliament, as well as decrease the threshold of votes necessary for further amendments to the Constitution. Although in March 2013 the Parliament unanimously adopted certain amendments to the constitution thus limiting the powers of the President, there can be no assurance that changes to Georgian Parliamentary, Presidential or Prime Ministerial powers will not create political disruptions or political instability or otherwise negatively affect the political climate in Georgia.

The Georgian Dream coalition government has adopted amendments to the Labour Code, amending, among other things, the maximum working hours, the circumstances under which fixed term employment contracts are permitted, the grounds for terminating employment with cause and the amount of compensation payable for the termination of employment. As a result of such amendments to the Labour Code, the Group may be required to adjust its policies and procedures to comply with the amended requirements.

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

The Group may experience increases in its income taxes

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

Risks relating to the Group's lending activities

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

The quality of the Group's loan portfolio is affected by changes in the creditworthiness of its customers, the ability of customers to repay their loans on time, the statutory priority of claims against customers and the Group's ability to enforce its security interests on customers' collateral should such customers fail to repay their loans and whether the value of such collateral is sufficient to cover the full amounts of those loans. In addition, the quality of the Group's loan portfolio may deteriorate due to various other reasons, such as any negative developments in Georgia's economy resulting in the financial distress or bankruptcy of the Group's customers or the unavailability or limited availability of credit information concerning certain customers, and other factors, such as a failure of the Group's risk management procedures or a rapid expansion of the Group's loan portfolio. For example, during 2008 and 2009, the Group's loan book quality was negatively affected by the economic slowdown in Georgia, Ukraine and Belarus, as well as by the 2008 Conflict. The Group's cost of credit risk amounted to GEL 36.3 million in the first half of 2013 compared to GEL 14.0 million in first half of 2012 and GEL 8.3 million in the first half of 2011. Also, as at 30 June 2013, 2012 and 2011, loans past-due more than 90 days accounted for 3.9%, 2.9% and 3.0% of total gross loans, respectively. NPLs accounted for 4.1% of gross loans as at 30 June 2013, 3.3% as at 30 June 2012 and 3.9% as at 30 June 2011. 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 ("Renegotiated Loans") accounted for 3.2% of total gross loans as at 31 December 2012 as compared to 4.4% as at 31 December 2011. For more information regarding the credit quality of Renegotiated Loans, see "The Group's risk management methods may prove ineffective at mitigating credit risk." Although, the Board does not believe that there is a material risk that the Group's loan portfolio quality will deteriorate in the next six months, there can be no assurance that in the longer term the Group's loan portfolio quality will not deteriorate and that the Group's loan impairment charges will not increase, which could, in turn, have an adverse effect on the Group's business, financial condition and results of operations.

The Group's loan portfolio for its Corporate Banking segment is concentrated, with the Group's top ten corporate borrowers accounting for 16.2% of the Group's total loan portfolio as at 30 June 2013 (gross of allowance for impairment). To the extent that the Group grows its loan portfolio by entering into additional arrangements with existing counterparties, it will increase its credit and general counterparty risk with respect to those counterparties.

Collateral values may decline

As at 30 June 2013, the Group held collateral against gross loans (excluding finance lease receivables) amounting to GEL 2,866.1 million, corresponding to 88.4% of the Group's total gross loans. The main forms of collateral taken by the Group in its corporate lending are charges over real estate, equipment, inventory and trade receivables. The main form of collateral taken by the Group in its retail lending is a mortgage over residential property. In respect of

mortgage loans which are secured by real estate, the Group imposes a loan-to-value (based on a market value of the collateral) ratio of between 60% and 90% at the time the loan is advanced, depending on the value of the collateral. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions in the industries in which the Group's customers operate, such as occurred during 2008 and 2009, may result in illiquidity and a decline in the value of the collateral securing the Group's loans, including a decline to levels below the outstanding principal balance of those loans.
In addition, declining or unstable prices of collateral in Georgia may make it difficult for the Group to accurately value collateral held by it. If the fair value of the collateral held by the Group declines significantly in the future, the Group could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans past due more than 90 days which could, in turn, have a material 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 NIM was 7.7%, 8.2% and 7.9% in the six months ended 30 June 2013, 2012 and 2011, respectively. The decrease in the Group's NIM in the first half of 2013 as compared to the first half of 2012 was primarily due to excess liquidity as a result of the slowdown in loan demand in the fourth quarter of 2012 and the first half of 2013 as well as the decline in loan yield from 17.8% in the first half of 2012 to 16.8% in the first half of 2013. Any reduction in the Group's NIM caused by changes in the key factors outlined above otherwise could have a material adverse effect on the Group's net interest income, which could, in turn, have a material adverse effect on the Group.

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

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

A substantial portion of the total assets of the Group, especially its loan portfolio (66.2% of its gross loans to customers as at 30 June 2013), is denominated in foreign currencies, primarily US dollars, while the majority of customers who have their loans denominated in foreign currencies earn their income in Lari. Those customers are usually not protected against the fluctuations of the exchange rates of the Lari against the currency of the loan. Consequently, any depreciation of the Lari against the currency of the loan may result in difficulties in repayment of the loans, which may lead to a decrease in the quality of the Group's loan portfolio and an increase in impairment provisions for loans extended to the Group's customers, which may have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, the Group's operations are affected by the Lari to Belarusian Rouble exchange rates as these affect the value of the Group's equity interests in BNB, its Belarusian subsidiary, on a consolidated basis.

Depreciation of the Belarusian Rouble against the Lari has the effect of reducing BNB's contribution to the Group's consolidated capital. As a result of the Belarusian Rouble devaluation in 2011 (178.3% against the US dollar), the regulatory capital of BNB decreased below the minimum regulatory capital required to accept retail deposits (being €25 million, as required by the National Bank of Republic of Belarus). Accordingly, the regulatory capital of BNB decreased to €14.6 million (GEL 31.6 million) as at 31 December 2011. In 2012, the Belarusian Rouble devalued further (2.6% against the US dollar), but remained stable in the first half of 2013. As at 1 January 2013, the regulatory capital of BNB was €17.3 million (GEL 37.8 million). As at 30 June 2013, the regulatory capital of BNB was €19.8 million (GEL 42.8 million). The NBRB has granted a temporary waiver of the minimum regulatory capital requirement until 1 January 2014. The NBRB has also set a limit on the amount of deposits from individuals at GEL 49.5 million (which is the value of deposits from individuals of BNB as at 1 February 2013) until BNB regulatory capital reaches minimum required level of €25 million. As at 31 December 2011, as a result of the devaluation of the Belarusian Rouble, the Group recognised a write down of GEL 23.4 million, representing the full amount of BNB's goodwill.

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

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

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

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

Additional risks arising principally from the Group's banking activities

The Group faces liquidity risk

The Group becomes exposed to liquidity risk when the maturities of its assets and liabilities do not coincide. Liquidity risk is inherent in banking operations and can be heightened by a number of factors, including an 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). The Group's current liquidity may be affected by unfavourable financial market conditions. If assets held by the Group in order to provide liquidity become illiquid or their value drops substantially, the Group may therefore be required, or may choose, to rely on other sources of funding to finance its operations and expected future growth. However, there is only a limited amount of funding available on the Georgian inter-bank market and the Group's recourse to other funding sources may pose additional risks, including the possibility that other funding sources may be more expensive and less flexible. In addition, the Group's ability to access such external funding sources is directly connected with the level of credit lines available to the Group, and this in turn is dependent on the Group's financial and credit condition, as well as general market liquidity.

As at 30 June 2013, 2012 and 2011, 69.2%, 74.5%, and 78.0%, respectively, of the Group's amounts due to customers had maturities of one year or less while 23.5%, 13.2% and 13.2%, respectively, were payable on demand. As at the same dates, the Group's ratio of net loans to amounts due to customers was 109.6%, 102.7%, and 109.5%, respectively. In terms of current and short-term liquidity, the Group is exposed to the risk of unexpected, rapid withdrawal of deposits by its customers in large volumes. Circumstances in which customers are more likely to rapidly withdraw deposits in large volumes include a severe economic downturn, a loss in consumer confidence, an erosion of trust in financial institutions, or a period of social, economic or political instability. By way of example, the Group experienced a higher than usual volume of customer withdrawals in the period following the 2008 Conflict. See "Political and governmental instability in Georgia could have an adverse effect on the local economy and the Group". If a substantial portion of the Group's customers rapidly or unexpectedly withdraw their demand or term deposits or do not roll over their term deposits upon maturity, this could have a material adverse effect on the Group.

The Group is subject to certain regulatory ratios

The Bank, like all regulated financial institutions in Georgia, is required to comply with certain capital adequacy and regulatory ratios set by the NBG. 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 December 2010, the Basel Committee on Banking Supervision published the Basel III rules setting out certain changes to capital requirements applicable to banks. Implementation of the new, combined regulation based on Basel II and Basel III takes place at a national level. The NBG is currently in the process of implementing Basel II and Basel III in Georgia. On 17 January 2013, the NBG published a draft regulation for capital adequacy based on Basel II and Basel III, which makes adjustments to certain Basel II and Basel III rules, including those relating to foreign currency additional risk weights, specific measurements and risk estimates. As notified by the NBG, the Group expects the implementation of Basel II and Basel III on 1 January 2014. The NBG is expected to publish an updated implementation schedule in due course. As the implementation of Basel II and Basel III will be subject to the rules that have yet to be adopted in Georgia, the Group cannot predict the impact such rules will have on the Group's overall capital requirements.

In addition, BNB is licensed by the NBRB and is required to comply with certain capital adequacy ratios and minimum share capital requirements set by the NBRB. Although BNB has the minimum level of regulatory capital required by NBRB to conduct banking operations in Belarus (the minimum level for this purposes is set at the equivalent of €5 million and, as at 30 June 2013, the regulatory capital of BNB was €19.8 million), BNB has not had the minimum level of regulatory capital required by NBRB in order to hold deposits from individuals (set at the equivalent of €25 million for this purpose) since May 2011. Although BNB has received a temporary waiver effective until 1 January 2014 in respect of this breach, there is no assurance that BNB will be able to comply with the minimum level of regulatory capital required by NBRB by 1 January 2014, or that it will be able to obtain a further waiver from the NBRB thereafter. For further information see "Currency fluctuation 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 license to accept retail deposits. As at 30 June 2013, BNB had GEL 47.7 million in deposits from individuals, representing 1.7% of the Group's total customer deposits and 1.0% of total liabilities.

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

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

Failure to maintain the minimum capital adequacy and other regulatory ratios may have a material adverse effect on the Group. Moreover, a breach of regulatory requirements relating to the minimum capital adequacy and other regulatory ratios may result in entities in the Group being subject to regulatory or administrative sanctions, which could impact the Group's ability to conduct its business, result in an increase in the operating costs of the Group and loss of reputation which could have a material adverse effect on the Group's financial condition.

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

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

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

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

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

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

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

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

Risks affecting the Group's non-banking activities

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

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

Although Aldagi adheres to strict reinsurance policies and periodically evaluates the financial condition of its reinsurers to minimise its exposure to significant losses from reinsurer insolvencies, reinsurers may become financially unsound by the time their financial obligations become due. The inability of any reinsurer to meet its financial obligations to Aldagi could negatively impact Aldagi's financial condition and results of operations. In addition, the availability, amount and cost of reinsurance depend on general market conditions which may fluctuate.

Reinsurance may not be available to Aldagi at commercially reasonable rates, or at all, and any decrease in the amount of Aldagi's reinsurance will increase its risk of loss.

In accordance with industry practices and accounting regulatory requirements, Aldagi establishes reserves for reported claims, incurred but not reported claims 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 financial condition and results of operations.

The Government of Georgia is currently in the process of preparing and finalising a range of new initiatives on the regulation of the healthcare sector in Georgia. In particular, under the state-funded Universal Health Care Programme, the Government of Georgia has announced an intention to establish a state insurance company to provide basic insurance package for every Georgian citizen who is not already covered by private insurance. The Group's insurance subsidiary, Aldagi, currently provides Government-funded insurance coverage to certain groups such as the socially vulnerable, pensioners, students and children. The establishment of a state insurance company to provide such insurance coverage could lead to a material reduction in the Government-funded insurance policies that Aldagi provides thereby materially reducing the revenues of Aldagi and Aldagi's ability to acquire new insurance customers.

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

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

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

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

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

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

Other risks affecting the Group

The Group may not successfully implement its strategy

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

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

The Group faces competition

In recent years the Georgian banking sector has become increasingly competitive. According to the NBG, as at June 2013 there were 20 commercial banks, of which 18 are foreign controlled. The Group competes with a number of these banks, including TBC Bank, ProCredit Bank, Bank Republic and VTB Georgia. In particular, as ProCredit Bank has a large market share in respect of SME and micro finance loans, the Group faces competition from ProCredit Bank in relation to SME and micro financing in Georgia. TBC Bank and Bank Republic are the Bank's principal competitors in the corporate sector. In addition, both the mortgage market and the market for the provision of financial services to high net worth individuals are highly competitive in Georgia, with some competitors in the mortgage market implementing aggressive pricing policies in order to retain or build their market share. Additionally, in Belarus, the Group competes with a wide range of local (including state-owned) and international banks.

There can be no assurance that the current regulatory environment in which the Group operates in respect of competition and anti-monopoly matters will not be subject to significant change in the future. Anti-monopoly matters with respect to banking services sector are currently handled by the NBG. However, as part of the Georgian Government's anti-monopoly policies, it may, in the future, seek to legislate or regulate competition and anti-monopoly matters in the Georgian banking industry and as part of any such changes, it is possible that anti-monopoly regulation could be enforced by a governmental agency other than the NBG. The Group cannot predict whether Parliament will seek to do this, or if they did, what such laws or regulations would be. In addition, the Group cannot predict whether it would be able to comply with any or all such laws or regulations.

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

Increased competition may have a negative impact on the Group's ability to sustain its margin and fee levels, particularly if the Group's competitors possess greater financial resources (especially in the case of banks with foreign capital investment or banks which are branches or subsidiaries of non-resident foreign banks, by way of access to funding from foreign capital or their parent entity), access to lower-cost funding and a broader offering of products than the Group, or if the Group's competitors merged to significantly enhance their financial resources, access to funding and product offerings. Unlike most of its competitors, the Group has a relatively wide shareholder base and does not have an international financial institution as a majority shareholder. 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, increasing interest rates on bank deposits resulting from increasing competition in 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 a material adverse effect on the Group's business financial condition and results of operations.

The Group depends on its key management and qualified personnel

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

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

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

The Group faces certain risks associated with conducting international operations

The Group has historically made investments in Ukraine and Belarus. The Group's financial results in 2009 were adversely affected by a goodwill write-down in the amount of GEL 73.1 million, predominantly due to the write-off of the entire goodwill associated with 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. In February 2011, the Group disposed of its 80% interest in BG Bank. The Group's financial results in 2011 were adversely affected by a goodwill write down in the amount of GEL 23.4 million, due to the write off of the entire goodwill associated with BNB, as a result of a material devaluation of the Belarusian Rouble. For further information, see "Currency fluctuations have affected and may continue to affect the Group".

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

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

The Group has implemented comprehensive anti-money laundering ("AML"), "know-your-customer", "know your corresponding bank" and "know your employee" policies and is in the process of implementing such policies throughout its financial subsidiaries (including insurance and brokerage subsidiaries). Compliance with these policies is monitored by the Group's AML Compliance Department and the Group seeks to adhere to all requirements under applicable legislation in relation to money laundering. However, there can be no assurance that these measures will be effective. If the Group fails to comply with timely reporting requirements or other AML regulations or is associated with money laundering or terrorist financing, this could have a material adverse effect on the Group's business, financial condition and results of operations. In addition, involvement in such activities may carry criminal or regulatory fines and sanctions.

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

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

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

In Georgia, tax laws have not been in force for significant periods of time compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, such tax laws are subject to frequent changes and amendments, which can result in unusual complexities for the Group and its business generally. A new Tax Code was adopted in Georgia on 17 September 2010 and came into effect on 1 January 2011. Differing opinions regarding the interpretation of various provisions exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties, inconsistencies and areas of conflict. While the new Tax Code provides for the Georgian tax authorities to provide advance tax rulings on tax issues raised, thereby reducing the uncertainty regarding interpretation, 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 "Political and governmental instability in Georgia could have an adverse effect on the local economy and the Group". Such changes could include the introduction of new taxes, an increase in the tax rates applicable to the Group or its customers or the introduction of a bank levy. Any such changes in the tax laws or governmental tax policies may have a material adverse effect on the Group. In addition, to varying degrees, the same uncertainties of the tax system in Georgia apply to Belarus.

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

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

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

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

RESPONSIBILITY STATEMENTS

We confirm that to the best of our knowledge:

- The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted by the European Union;

- The Interim Report 2013 includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

- The Interim Report 2013 includes fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the board

Neil Janin	**Irakli Gilauri**
Chairman	Chief Executive

13 August 2013

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

Ernst & Young LLP
1 More London Place
London SE1 2AF

Tel: 020 7951 2000
Fax: 020 7951 1345
www.ey.com/uk

INVESTOR IN PEOPLE

INDEPENDENT REVIEW REPORT TO BANK OF GEORGIA HOLDINGS PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 which comprises the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows and related notes 1 to 19. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst + Young LLP

Ernst & Young LLP
London
13 August 2013

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2013

(Thousands of Georgian Lari)

	Notes	*As at* 30 June 2013	31 December 2012
		Unaudited	
Assets			
Cash and cash equivalents	5	547,404	762,827
Amounts due from credit institutions	6	326,537	396,559
Investment securities available-for-sale	7	644,237	463,960
Loans to customers	8	3,095,684	3,020,634
Finance lease receivables		27,232	71,686
Investments in associates		–	2,441
Investment properties	9	169,722	160,353
Property and equipment		447,205	430,877
Intangible assets		24,039	23,078
Goodwill		45,657	45,657
Current income tax assets		1,707	944
Deferred income tax assets		14,234	14,352
Prepayments		30,205	41,147
Other assets		297,831	221,080
Total assets		**5,671,694**	**5,655,595**
Liabilities			
Amounts due to customers	10	2,850,234	2,693,025
Amounts due to credit institutions	11	1,475,686	1,657,162
Current income tax liabilities		6,242	13,818
Deferred income tax liabilities		51,169	46,184
Provisions		483	683
Other liabilities		184,975	185,211
Total liabilities		**4,568,789**	**4,596,083**
Equity	12		
Share capital		903	957
Additional paid-in capital		19,645	14,767
Treasury shares		(50)	(69)
Other reserves		39,209	14,097
Retained earnings		988,885	981,322
Total equity attributable to shareholders of the Group		**1,048,592**	**1,011,074**
Non-controlling interests		54,313	48,438
Total equity		**1,102,905**	**1,059,512**
Total liabilities and equity		**5,671,694**	**5,655,595**

Signed and authorised for release on behalf of the Board of Directors of the Group:

Irakli Gilauri Chief Executive Officer

13 August 2013

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2013

(Thousands of Georgian Lari)

	Notes	*For the six months ended 30 June* 2013	2012
		Unaudited	*Unaudited*
Interest income			
Loans to customers		260,047	244,965
Investment securities – available-for-sale		17,642	17,806
Amounts due from credit institutions		4,945	9,624
Finance lease receivables		3,208	4,133
		285.842	**276.528**
Interest expense			
Amounts due to customers		(85,538)	(103,765)
Amounts due to credit institutions		(49,625)	(34,047)
		(135.163)	**(137.812)**
Net interest income before net losses from interest rate swaps		**150,679**	**138,716**
Net losses from interest rate swaps		(185)	(1,053)
Net interest income		**150,494**	**137,663**
Fee and commission income		54,898	51,477
Fee and commission expense		(12,622)	(9,944)
Net fee and commission income	14	**42.276**	**41.533**
Net insurance premiums earned		64,289	32,383
Net insurance claims incurred		(41,565)	(20,426)
Net insurance revenue		**22.724**	**11.957**
Healthcare revenue		27,489	22,587
Cost of healthcare services		(18,498)	(13,391)
Net healthcare revenue		**8.991**	**9.196**
Revenue from sale of goods		16,564	11,785
Cost of sales		(11,486)	(6,425)
Net revenue from sale of goods		**5.078**	**5.360**
Net gains from trading securities and investment securities available-for-		2,590	953
Net gains from revaluation of investment properties		4,842	–
Net gains from foreign currencies:			
– dealing		21,134	17,187
– translation differences		543	9,004
Other operating income		4,004	6,132
Other operating non-interest income		**33.113**	**33.276**
Revenue		**262,676**	**238,985**
Salaries and other employee benefits		(65,077)	(57,829)
General and administrative expenses		(29,764)	(33,762)
Depreciation and amortization		(13,339)	(13,919)
Other operating expenses		(1,441)	(3,554)
Operating expenses		**(109.621)**	**(109.064)**
Operating income before cost of credit risk		**153,055**	**129,921**

The accompanying selected explanatory notes on pages 63 to 85 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the six months ended 30 June 2013

(Thousands of Georgian Lari)

	Notes	*For the six months ended 30 June* 2013 Unaudited	2012 Unaudited
Operating income before cost of credit risk		**153,055**	**129,921**
Impairment charge on loans to customers		(20,271)	(13,001)
Impairment charge on finance lease receivables		(2,704)	(241)
Impairment charge on other assets and provisions	15	(13,286)	(705)
Cost of credit risk		**(36,261)**	**(13,947)**
Net operating income		**116,794**	**115,974**
Net non-operating expenses		(5,453)	(12,393)
Profit before income tax expense		**111,341**	**103,581**
Income tax expenses		(16,239)	(17,542)
Profit for the period		**95,102**	**86,039**
Attributable to:			
– shareholders of the Group		91,735	84,212
– non-controlling interests		3,367	1,827
		95,102	**86,039**
Earnings per share:	12		
– basic earnings per share		2.6956	2.5668
– diluted earnings per share		2.6956	2.5196

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

(Thousands of Georgian Lari)

	For the six months ended 30 June	
	2013	***2012***
	Unaudited	*Unaudited*
Profit for the period	**95,102**	**86,039**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
– Revaluation of investment securities available-for-sale	2,544	(195)
– Realised gain on investment securities available-for-sale reclassified to the consolidated income statement	(2,514)	(844)
– Loss from currency translation differences	(12,186)	(5,607)
Income tax benefit relating to components of other comprehensive income	1,919	830
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(10,237)**	**(5,816)**
Total comprehensive income for the period	**84,865**	**80,223**
Attributable to:		
– shareholders of the Group	82,097	78,898
– non-controlling interests	2,768	1,325
	84,865	**80,223**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

(Thousands of Georgian Lari)

	Attributable to shareholders of the Group						*Non-controlling interests*	*Total equity*
	Share capital	*Additional paid-in*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*		
31 December 2011	**32,878**	**473,732**	**(3,146)**	**14,478**	**254,588**	**772,530**	**40,073**	**812,603**
Total comprehensive income (loss) for the six months ended 30 June 2012 (unaudited)	–	–	–	(2,093)	80,991	78,898	1,325	80,223
Depreciation of revaluation reserve, net of tax	–	–	–	(297)	297	–	–	–
Increase in share capital arising from share-based payments	–	24,108	602	–	–	24,710	–	24,710
Issue of share capital (Note 12)	3,635	70,313	–	–	–	73,948	–	73,948
Conversion of shares following the Tender Offer (Note 12)	(35,570)	23,983	2,507	(497)	(4,589)	(14,166)	14,166	–
Effect of translation of equity components to presentation currency (Note 12)	(21)	(5,833)	(1)	–	6,169	314	(314)	–
Transactions costs recognised directly in equity	–	(3,325)	–	–	–	(3,325)	–	(3,325)
Dividends to shareholders of the Group (Note 12)	–	–	–	–	(23,618)	(23,618)	–	(23,618)
Acquisition of additional interest in existing subsidiary by non-controlling shareholders	–	–	–	–	–	–	749	749
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	(83)	3,707	3,624	(11,156)	(7,532)
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	254	254
Sale of treasury shares	–	89	5	–	–	94	–	94
Purchase of treasury shares	–	(679)	(33)	–	–	(712)	–	(712)
Reduction of capital (Note 12)	–	(582,388)	–	–	582,388	–	–	–
30 June 2012 (unaudited)	**922**	**–**	**(66)**	**11,508**	**899,933**	**912,297**	**45,097**	**957,394**
31 December 2012	**957**	**14,767**	**(69)**	**14,097**	**981,322**	**1,011,074**	**48,438**	**1,059,512**
Total comprehensive income for the six months ended 30 June 2013 (unaudited)	–	–	–	25,441	56,656	82,097	2,768	84,865
Depreciation of revaluation reserve, net of tax	–	–	–	(267)	267	–	–	–
Increase in share capital arising from share-based payments	–	9,708	19	–	–	9,727	–	9,727
Effect of translation of equity components to presentation currency (Note 12)	(54)	–	3	(72)	123	–	–	–
Dividends to shareholders of the Group (Note 12)	–	–	–	–	(49,483)	(49,483)	–	(49,483)
Dilution of interests in subsidiaries, through issuance of new shares	–	–	–	–	–	–	150	150
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	10	–	10	2,957	2,967
Purchase of treasury shares	–	(4,830)	(3)	–	–	(4,833)	–	(4,833)
30 June 2013 (unaudited)	**903**	**19,645**	**(50)**	**39,209**	**988,885**	**1,048,592**	**54,313**	**1,102,905**

The accompanying selected explanatory notes on pages 63 to 85 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

(Thousands of Georgian Lari)

	Notes	For the six months ended 30 June 2013 Unaudited	2012 Unaudited
Cash flows from (used in) operating activities			
Interest received		276,486	267,803
Interest paid		(131,716)	(130,405)
Fees and commissions received		54,898	51,477
Fees and commissions paid		(12,622)	(9,944)
Insurance premiums received		64,289	32,383
Insurance claims paid		(41,565)	(20,426)
Healthcare revenue received		27,489	22,587
Cost of healthcare services paid		(18,498)	(13,391)
Revenue received from sale of goods		16,564	11,785
Cost of sales of goods		(11,486)	(6,425)
Net realised gains from trading securities		76	109
Net realised gains from investment securities available-for-sale		2,514	844
Net realised gains from foreign currencies		21,134	17,187
Recoveries of previously written off loans to customers and finance lease receivables		17,033	16,028
Other operating expense paid		(515)	(3,573)
Salaries and other employee benefits paid		(62,773)	(61,247)
General and administrative expenses paid		(38,798)	(41,347)
Cash flows from operating activities before changes in operating assets and liabilities		**162,510**	**133,445**
Net (increase) decrease in operating assets			
Amounts due from credit institutions		69,869	(45,626)
Loans to customers		(131,045)	(360,192)
Finance lease receivables		(517)	(3,342)
Prepayments and other assets		(22,362)	(19,304)
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions		(181,579)	(3,737)
Amounts due to customers		153,680	101,668
Other liabilities		7,512	(18,132)
Net cash flows from operating activities before income tax		**58,068**	**(215,220)**
Income tax paid		(16,624)	(1,409)
Net cash flows from operating activities		**41,444**	**(216,629)**
Cash flows from (used in) investing activities			
Acquisition of subsidiaries, net of cash acquired		–	(7,946)
Purchase of investment securities available-for-sale		(230,783)	(145,851)
Proceeds from sale of investment securities available-for-sale		48,423	148,628
Proceeds from sale of investment properties	9	9,726	10,205
Purchase of property and equipment and intangible assets		(30,632)	(29,276)
Net cash flows used in investing activities		**(203,266)**	**(24,240)**
Cash flows (used in) from financing activities			
Dividends paid		(49,483)	–
Purchase of treasury shares		(4,833)	(712)
Sale of treasury shares		–	94
Purchase of additional interests in existing subsidiaries		–	(7,532)
Proceeds from sale of non-controlling interest in existing subsidiaries, net of cash acquired		–	749
Net cash used in financing activities		**(54,316)**	**(7,401)**
Effect of exchange rates changes on cash and cash equivalents		715	(5,464)
Net decrease in cash and cash equivalents		**(215,423)**	**(253,734)**
Cash and cash equivalents, beginning	5	**762,827**	**628,731**
Cash and cash equivalents, ending	5	**547,404**	**374,997**

The accompanying selected explanatory notes on pages 63 to 85 are an integral part of these interim condensed consolidated financial statements.

Selected Explanatory Notes to Interim Condensed Consolidated Financial Statements
(Thousands of Georgian Lari)

1. Principal Activities

JSC Bank of Georgia (the "Bank") was established on 21 October 1994 as a joint stock company ("JSC") under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG"; the Central Bank of Georgia) on 15 December 1994.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally and exchanges currencies. Its main office is in Tbilisi, Georgia. At 30 June 2013 the Bank has 197 operating outlets in all major cities of Georgia (31 December 2012: 194). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

The Bank is the parent of a group of companies incorporated in Georgia and Belarus. Primary business activities include providing banking, leasing, insurance, healthcare, brokerage and investment management services, to corporate and individual customers.

In December 2011, Bank of Georgia Holdings PLC ("BGH"), a public limited liability company incorporated in England and Wales, launched the Tender Offer (the "Tender Offer") to exchange its entire ordinary share capital for an equivalent number of the Bank's ordinary shares and thus to acquire the entire issued and to be issued share capital, including those shares represented by Global Depositary Receipts ("GDRs"), of the Bank. Following the successful completion of the Tender Offer on 28 February 2012 and subsequent acquisitions of the Bank's remaining shares held by non-controlling shareholders by the Bank, BGH holds 99.62% of the share capital of the Bank as at 30 June 2013, representing the Bank's ultimate parent company. Together with the Bank's subsidiaries, BGH makes up a group of companies (the "Group"). The shares of BGH ("BGH Shares") are admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 28 February 2012. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

Bank of Georgia Holdings PLC's registered legal address is 84 Brook Street, London, United Kingdom W1IK 5EH.

As at 30 June 2013 and 31 December 2012 the following shareholders owned more than 4% of the outstanding shares of the Group. Other shareholders individually owned less than 4% of the outstanding shares.

Shareholder	***30 June 2013, %***	***31 December 2012, %***
Franklin Templeton Investments	8.06%	5.04%
Firebird Management LLC	7.28%	7.94%
International Finance Corporation	5.06%	5.06%
European Bank for Reconstruction & Development	5.06%	5.06%
Royal Bank of Canada *	4.88%	6.72%
Wellington Management Company	4.87%	–
East Capital Financial Institutions	2.23%	17.62%
Others	62.56%	52.56%
Total	**100.00%**	**100.00%**

**** A trust where shares are held for the share-based compensation purposes of the Bank.***

Selected Explanatory Notes to Interim Condensed Consolidated Financial Statements
(Thousands of Georgian Lari)

1. Principal Activities (continued)

As at 30 June 2013, the members of the Supervisory Board and Board of Directors owned 443,520 shares or 1.24% (31 December 2012: 540,987 shares or 1.51%) of the Group. Interests of the members of the Supervisory Board and Management Board were as follows:

Shareholder	*30 June 2013, shares held*	*31 December 2012, shares held*
Irakli Gilauri	109,431	206,431
Avto Namicheishvili	64,954	84,488
Allan Hirst	60,434	60,434
Sulkhan Gvalia	57,404	54,304
Mikheil Gomarteli	54,867	38,867
David Morrison	26,357	26,357
Kaha Kiknavelidze	26,337	26,337
Neil Janin	25,729	25,729
Al Breach	10,279	10,279
Ian Hague	5,112	5,112
Hanna Loikkanen	2,616	2,616
Nikoloz Gamkrelidze	–	33
Total	**443,520**	**540,987**

2. Basis of Preparation

General

The financial information set out in these interim condensed consolidated financial statements does not constitute the Group’s statutory financial statements within the meaning of section 435 of the Companies Act 2006. Those financial statements were prepared for the year ended 31 December 2012 under IFRS, as adopted by the European Union and have been reported on by BGH's auditors and delivered to the Registrar of Companies. The auditor’s report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The interim condensed consolidated financial statements for the six months ended 30 June 2013 have been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting”, as adopted by the European Union. The Group’s annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

The Group’s interim condensed consolidated financial statements for the six months ended 30 June 2013 are a continuation of the existing group of JSC Bank of Georgia and its subsidiaries.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at and for the year ended 31 December 2012.

These interim condensed consolidated financial statements are presented in thousands of Georgian Lari (“GEL”), except per share amounts and unless otherwise indicated.

Having made enquiries, the directors have a reasonable expectation that BGH and the Group, as a whole, have adequate resources to continue operations for the foreseeable future, a period of at least 12 months from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the interim condensed financial statements.

In these interim condensed consolidated financial statements income tax expense is based on management’s best estimates of the effective annual income tax rate expected for the full financial year. Costs that occur unevenly during the financial year are anticipated or deferred in the interim condensed consolidated financial statements only if it is also appropriate to anticipate or defer such costs at the end of the financial year.

Selected Explanatory Notes to Interim Condensed Consolidated Financial Statements
(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies

Changes in accounting policies

The accounting policies and methods of computation applied in the preparation of these condensed interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group as at and for the year ended 31 December 2012, except for the changes introduced due to adoption/early adoption of new and/or revised standards and interpretations as of 1 January 2013, noted below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the "third balance sheet") must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim condensed financial statements do not include a third balance sheet.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 Financial Instruments: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements for the Group, as there are no tax consequences attached to cash or non-cash distribution.

IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The Group provides this disclosure as total segment assets and liabilities were reported to the chief operating decision maker. See Note 4.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The amendments had no impact on the Group's financial position or performance.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group does not offset financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

(Thousands of Georgian Lari)

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. The application of this new standard had no impact on the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they are provided. Accordingly, the Group has not made such disclosures.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements period. The Group provides these disclosures in Note 16.

In addition to the above-mentioned amendments and new standards, IFRS 1 First-time Adoption of International Financial Reporting Standards was amended with effect for reporting periods starting on or after 1 January 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Reclassifications

Due to the increased material size of other revenues from sale of goods, a separate section was added to the income statement with the summary of these revenues and respective direct costs. The following reclassification was made to the six months ended 30 June 2012 income statement to conform with the six months ended 30 June 2013 presentation requirements:

Six Month Period Ended	**Caption Consolidated Income Statement:**	***As previously reported***	***Reclassification***	***As reclassified***
30 June 2012	Revenue from sale of goods	–	11,785	11,785
30 June 2012	Cost of sales	–	(6,425)	(6,425)
30 June 2012	Other operating income	11,492	(5,360)	6,132

Due to the separate presentation of other revenues from sale of goods and costs of goods sold in the income statement, cash received and paid on these services are separately presented as well in the statement of cash flows. The following reclassification was made to the six months ended 30 June 2012 statement of cash flows, to conform with the six months ended 30 June 2013 presentation requirements:

Selected Explanatory Notes to Interim Condensed Consolidated Financial Statements
(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

Reclassifications (continued)

Six Month Period Ended	**Caption Consolidated Statement of Cash Flows:**	***As previously reported***	***Reclassification***	***As reclassified***
30 June 2012	Revenue received from sale of goods	–	11,785	11,785
30 June 2012	Cost of sales of goods	–	(6,425)	(6,425)
30 June 2012	Other operating income received	1,787	(5,360)	(3,573)

Functional and reporting currencies and foreign currency translation

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

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing) of the Bank. The official NBG exchange rates at 30 June 2013 and 31 December 2012 were:

	Lari to GBP	***Lari to USD***	***Lari to EUR***	***Lari to BYR (10,000)***
30 June 2013	2.5160	1.6509	2.1566	1.8782
31 December 2012	2.6653	1.6567	2.1825	1.9811

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

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

Selected Explanatory Notes to Interim Condensed Consolidated Financial Statements
(Thousands of Georgian Lari)

4. Segment Information

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

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

Corporate Banking (excluding Corporate Banking of BNB) - Principally providing loans and other credit facilities to large VIP as well as other legal entities, larger than SME and Micro, finance lease facilities provided by Georgian Leasing Company LLC, as well as providing funds transfers and settlement services, trade finance services and documentary operations support, handling saving and term deposits for corporate and institutional customers.

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

Corporate Centre - Principally providing back office services to all operating segments of the Group as well as holding all principal investments in subsidiaries.

Insurance - Principally providing wide-scale non-life insurance services to corporate clients and insured individuals.

Healthcare - Principally providing wide-scale healthcare services to clients and insured individuals.

Affordable Housing - Comprising JSC M2 Real Estate, principally developing and selling affordable residential apartments and also, holding investment properties repossessed by the Bank from defaulted borrowers and managing those properties.

BG Capital - Principally providing brokerage, custody and corporate finance services, mostly to wealthy or mass affluent individuals as well as to corporate customers.

BNB - Comprising JSC Belarusky Narodny Bank, principally providing retail and corporate banking services in Belarus.

Liberty Consumer - Principally holding private equity investments in several non-core business enterprises, such as winery, fitness centre, travel agencies, regional car dealership, hotels and restaurants management chain and other smaller investments, all designated for disposal.

Other - Comprising JSC Galt & Taggart Holding Georgia, a shell company, principally holding investments in subsidiaries of the Bank on behalf of the Bank.

For purposes of further consolidation of these operating segments and for more comprehensive presentation in these interim condensed consolidated financial statements, management has further grouped them into large segments, classified as: Strategic, Synergistic and Non-Core.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the interim condensed consolidated financial statements.

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

Selected Explanatory Notes to Interim Condensed Consolidated Financial Statements
(Thousands of Georgian Lari)

4. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as at and for the six months ended 30 June 2013 (unaudited):

	Strategic				*Synergistic*				*Non-Core*			*Inter – segment transactions and balances*	*Total*
	Corporate banking	*Retail banking*	*Investment management*	*Corporate center*	*Insurance*	*Healthcare*	*Affordable Housing*	*BG Capital*	*BNB**	*Liberty Consumer*	*Other*		
Net interest income (expense)	50,460	91,064	4,553	–	1,357	(6,267)	1,037	302	8,370	(270)	(1,355)	1,243	150,494
Net fees and commission income (expense)	14,372	25,322	284	(79)	87	(188)	(18)	533	2,802	(18)	–	(821)	42,276
Net insurance revenue	–	–	–	–	17,670	–	–	–	–	–	–	5,054	22,724
Net healthcare revenue	–	–	–	–	–	15,469	–	–	–	–	–	(6,478)	8,991
Net revenue from sale of goods	–	–	–	–	–	–	209	–	–	4,869	–	–	5,078
Net gains (losses) from foreign currencies	12,536	7,063	774	–	(205)	238	(44)	(18)	1,388	(59)	5	–	21,678
Other revenue	3,256	2,657	27	–	396	869	5,432	77	43	6	712	(2,040)	11,435
Revenue	**80,624**	**126,106**	**5,638**	**(79)**	**19,305**	**10,121**	**6,616**	**894**	**12,603**	**4,528**	**(638)**	**(3,042)**	**262,676**
Operating expenses	(20,855)	(60,515)	(2,659)	(1,950)	(8,035)	(6,565)	(1,103)	1	(6,689)	(3,017)	(1,278)	3044	(109,621)
Operating income before cost of credit risk	**59,769**	**65,591**	**2,979**	**(2,029)**	**11,270**	**3,556**	**5,513**	**895**	**5,914**	**1,511**	**(1,916)**	**2**	**153,055**
Cost of credit risk	(17,191)	(17,470)	262	–	(631)	(789)	66	–	(626)	–	–	118	(36,261)
Net operating income	**42,578**	**48,121**	**3,241**	**(2,029)**	**10,639**	**2,767**	**5,579**	**895**	**5,288**	**1,511**	**(1,916)**	**120**	**116,794**
Net non-operating (expenses) income	(1,016)	(540)	(25)	–	–	–	(493)	159	(790)	(2,748)	–	–	(5,453)
Profit before income tax expense	**41,562**	**47,581**	**3,216**	**(2,029)**	**10,639**	**2,767**	**5,086**	**1,054**	**4,498**	**(1,237)**	**(1,916)**	**120**	**111,341**
Income tax expense	(5,973)	(6,016)	(402)	–	(1,733)	(224)	(662)	(197)	(1,239)	(148)	355	–	(16,239)
Profit for the period	**35,589**	**41,565**	**2,814**	**(2,029)**	**8,906**	**2,543**	**4,424**	**857**	**3,259**	**(1,385)**	**(1,561)**	**120**	**95,102**
Assets and liabilities													
Total assets	2,524,327	2,508,977	20,731	11,908	176,468	190,877	124,842	19,757	230,344	38,949	21,389	(196,875)	5,671,694
Total liabilities	1,966,181	1,638,081	624,207	646	132,010	128,842	56,330	12,756	174,456	15,735	18,031	(198,486)	4,568,789
Other segment information													
Property and equipment	1,383	12,732	154	–	543	22,209	–	2	364	227	1	–	37,615
Intangible assets	402	2,555	32	–	841	125	–	–	44	9	1	–	4,009
Capital expenditure	**1,785**	**15,287**	**186**	**–**	**1,384**	**22,334**	**–**	**2**	**408**	**236**	**2**	**–**	**41,624**
Depreciation	(1,364)	(8,105)	(148)	–	(425)	(24)	(24)	(7)	(789)	(508)	(30)	–	(11,424)
Amortization	(233)	(1,499)	(18)	–	(109)	–	(1)	–	(54)		(1)	–	(1,915)

**** JSC Belarusky Narodny Bank (BNB).***

Selected Explanatory Notes to Interim Condensed Consolidated Financial Statements
(Thousands of Georgian Lari)

4. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments for the six months ended 30 June 2012 (unaudited) and as at 31 December 2012:

	Strategic				*Synergistic*				*Non-Core*			*Inter – segment transactions and balances*	*Total*
	Corporate banking	*Retail banking*	*Investment management*	*Corporate center*	*Insurance*	*Healthcare*	*Affordable Housing*	*BG Capital*	*BNB**	*Liberty Consumer*	*Other*		
Net interest income (expense)	45,668	83,226	6,550	–	489	(2,245)	(1,363)	226	5,494	(382)	–	–	137,663
Net fees and commission income (expense)	14,469	25,504	230	(458)	–	–	–	294	1,494	–	–	–	41,533
Net insurance revenue	–	–	–	–	10,663	–	–	–	–	–	–	1,294	11,957
Net healthcare revenue	–	–	–	–	–	11,524	–	–	–	–	–	(2,328)	9,196
Net revenue from sale of goods	–	–	–	–	–	–	–	–	–	5,360	–	–	5,360
Net gains (losses) from foreign currencies	16,035	6,229	380	(9)	111	1	(107)	(104)	3,761	(106)	–	–	26,191
Other revenue	2,665	2,895	40	(1)	(716)	613	1,040	205	92	428	182	(358)	7,085
Revenue	**78,837**	**117,854**	**7,200**	**(468)**	**10,547**	**9,893**	**(430)**	**621**	**10,841**	**5,300**	**182**	**(1,392)**	**238,985**
Operating expenses	(25,337)	(55,263)	(1,924)	(639)	(6,520)	(7,314)	(1,861)	(646)	(4,738)	(5,793)	(419)	1,390	(109,064)
Operating income before cost of credit risk	**53,500**	**62,591**	**5,276**	**(1,107)**	**4,027**	**2,579**	**(2,291)**	**(25)**	**6,103**	**(493)**	**(237)**	**(2)**	**129,921**
Cost of credit risk	(1,541)	(11,139)	1	–	(238)	–	(68)	–	(1,265)	(127)	–	430	(13,947)
Net operating income	**51,959**	**51,452**	**5,277**	**(1,107)**	**3,789**	**2,579**	**(2,359)**	**(25)**	**4,838**	**(620)**	**(237)**	**428**	**115,974**
Net non-operating expenses	(4,568)	(3,869)	(126)	–	–	–	(2)	1	(210)	(3,619)	–	–	(12,393)
Profit before income tax (expense) benefit	**47,391**	**47,583**	**5,151**	**(1,107)**	**3,789**	**2,579**	**(2,361)**	**(24)**	**4,628**	**(4,239)**	**(237)**	**428**	**103,581**
Income tax (expense) benefit	(7,822)	(7,389)	(799)	–	(564)	(374)	354	(40)	(1,152)	228	16	–	(17,542)
Profit for the period	**39,569**	**40,194**	**4,352**	**(1,107)**	**3,225**	**2,205**	**(2,007)**	**(64)**	**3,476**	**(4,011)**	**(221)**	**428**	**86,039**
Assets and liabilities													
Total assets	2,573,498	2,474,052	43,169	18,716	186,717	170,415	105,899	22,394	185,859	37,924	21,951	(184,999)	5,655,595
Total liabilities	1,974,163	1,708,617	605,183	2,335	151,287	113,203	42,838	16,431	139,356	12,114	17,049	(186,493)	4,596,083
Other segment information													
Property and equipment	2,050	6,556	154	–	3,678	13,740	270	193	171	823	–	–	27,635
Intangible assets	305	1,005	17	–	60	–	20	2	80	152	–	–	1,641
Capital expenditure	**2,355**	**7,561**	**171**	–	**3,738**	**13,740**	**290**	**195**	**251**	**975**	–	–	**29,276**
Depreciation	2,141	7,262	159	–	334	1,306	95	9	382	492	–	–	12,180
Amortization	322	1,284	17	–	38	–	–	2	68	8	–	–	1,739
Impairment	1,161	930	30	–	–	–	–	–	–	899	–	–	3,020
Investments in associates	–	–	–	–	–	–	–	–	–	2,441	–	–	2,441
Share of profit of associates	–	–	–	–	–	–	–	–	–	(143)	–	–	(143)

**** JSC Belarusky Narodny Bank (BNB).***

5. Cash and Cash Equivalents

	30 June 2013 (unaudited)	*31 December 2012*
Cash on hand	201,136	302,956
Current accounts with central banks, excluding obligatory reserves	24,968	111,998
Current accounts with other credit institutions	262,434	204,486
Time deposits with credit institutions up to 90 days	58,866	143,387
Cash and cash equivalents	**547,404**	**762,827**

As at 30 June 2013 GEL 283,463 (31 December 2012: GEL 285,947) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 1.0% interest per annum on these deposits (31 December 2012: 5.25%).

6. Amounts Due from Credit Institutions

	30 June 2013 (unaudited)	*31 December 2012*
Obligatory reserves with central banks	295,010	323,099
Time deposits with maturity of more than 90 days	25,227	67,284
Inter-bank loans and receivables	6,300	6,176
Amounts due from credit institutions	**326,537**	**396,559**

Obligatory reserves with central banks represent amounts deposited with the NBG and the NBRB (National Bank of the Republic of Belarus). Credit institutions are required to maintain an interest-earning cash deposit (obligatory reserve) with central banks, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the statutory legislature. The Group did not earn any interest on foreign currency denominated obligatory reserve with NBG in 2013 (2012: 0.25%).

As at 30 June 2013 inter-bank loans and receivables include GEL 4,341 (31 December 2012: GEL 4,448) placed with non-OECD banks.

7. Investment Securities Available-for-sale

Available-for-sale securities comprise:

	30 June 2013 (unaudited)	*31 December 2012*
Certificates of deposit of central banks	409,695	259,402
Ministry of Finance treasury bonds	194,472	188,967
Ministry of Finance treasury bills	34,777	9,648
Corporate shares	5,293	5,943
Available-for-sale securities	**644,237**	**463,960**

Corporate shares as at 30 June 2013 include the remaining 19.4% investment in PJSC Bank Pershyi (formerly known as JSC BG Bank) of GEL 3,837 (31 December 2012: 3,837) and a real estate company of GEL 1,145 (31 December 2012: GEL 1,145).

8. Loans to Customers

	30 June 2013 (unaudited)	*31 December 2012*
Commercial loans	1,658,320	1,664,591
Consumer loans	616,907	591,968
Micro and SME loans	468,187	400,553
Residential mortgage loans	395,764	398,114
Gold – pawn loans	73,428	75,445
Loans to customers, gross	**3,212,606**	**3,130,671**
Less – Allowance for loan impairment	(116,922)	(110,037)
Loans to customers, net	**3,095,684**	**3,020,634**

Concentration of loans to customers

As at 30 June 2013 concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 520,675 accounting for 16% of the gross loan portfolio of the Group (31 December 2012: GEL 544,466 and 17% respectively). An allowance of GEL 23,094 (31 December 2012: GEL 20,702) was established against these loans.

As at 30 June 2013, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 767,553 accounting for 24% of the gross loan portfolio of the Group (31 December 2012: GEL 791,529 and 25% respectively). An allowance of GEL 10,157 (31 December 2012: GEL 7,118) was established against these loans.

As at 30 June 2013 and 31 December 2012 loans are principally issued within Georgia, and their distribution by industry sector is as follows:

	30 June 2013 (unaudited)	*31 December 2012*
Individuals	1,290,249	1,233,614
Trade and services	1,117,959	1,053,579
Mining and processing	286,604	347,505
Construction and development	238,163	218,103
Transport and communication	91,693	93,028
Agriculture	84,950	94,286
Energy	26,851	28,296
Others	76,137	62,260
Loans to customers, gross	**3,212,606**	**3,130,671**
Less – allowance for loan impairment	(116,922)	(110,037)
Loans to customers, net	**3,095,684**	**3,020,634**

Loans have been extended to the following types of customers:

	30 June 2013 (unaudited)	*31 December 2012*
Private companies	1,834,770	1,783,083
Individuals	1,290,249	1,233,614
State-owned entities	87,587	113,974
Loans to customers, gross	**3,212,606**	**3,130,671**
Less – allowance for loan impairment	(116,922)	(110,037)
Loans to customers, net	**3,095,684**	**3,020,634**

9. Investment Properties

	2013	2012
At 1 January	**160,353**	**101,686**
Additions*	15,032	35,007
Disposals	(9,726)	(10,205)
Net gains from revaluation of investment property	4,842	–
Transfers from (to) property and equipment and other assets	(779)	12,151
At 30 June (unaudited)	**169,722**	**138,639**

**additions comprise foreclosed properties, no cash transactions were involved.*

Investment properties are stated at fair value, which has been determined based on the valuation performed by a professional valuation company, an accredited independent appraiser, as at 31 December 2011. The appraiser is an industry specialist in valuing these types of investment properties. Fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The management regularly monitors market prices on investment properties and performs valuation when significant changes to the market prices are evident. In the view of the management, no significant changes in the value of investment properties took place during the six months ended 30 June 2013. However, two investment properties were revalued in 2013 as a result of material circumstances changing specifically in respect of these properties, leading to material changes to the value.

Rental income and direct operating expenses arising from investment properties comprise:

	30 June 2013 *(unaudited)*	***30 June 2012*** *(unaudited)*
Rental income	1,330	1,315
Direct operating expenses	(18)	(80)

The entire amount of direct operating expenses participated in the generation of rental income during the respective periods.

10. Amounts Due to Customers

The amounts due to customers include the following:

	30 June 2013 *(unaudited)*	***31 December 2012***
Current accounts	1,421,338	1,325,544
Time deposits	1,416,815	1,297,367
Promissory notes issued	12,081	70,114
Amounts due to customers	**2,850,234**	**2,693,025**
Held as security against letters of credit and guarantees (Note 13)	**22,315**	**31,439**

As at 30 June 2013 and 31 December 2012, promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. The average remaining maturity of the notes is 14 months (31 December 2012: 3 months).

At 30 June 2013, GEL 497,303 (17%) was due to the 10 largest customers (31 December 2012: GEL 462,815 (17%)).

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

	30 June 2012 *(unaudited)*	***31 December 2012***
Individuals	1,344,292	1,238,135
Private enterprises	1,337,463	1,300,487
State-owned entities	168,479	154,403
Amounts due to customers	**2,850,234**	**2,693,025**

10. Amounts Due to Customers (continued)

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

	30 June 2013 (unaudited)	*31 December 2012*
Individuals	1,344,292	1,238,135
Trade and services	701,990	712,794
Energy	317,484	241,807
State-owned entities	168,479	154,403
Construction and development	150,878	145,919
Mining and processing	42,562	59,129
Transport and communication	13,034	35,235
Agriculture	3,266	4,502
Other	108,249	101,101
Amounts due to customers	**2,850,234**	**2,693,025**

11. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	30 June 2013 (unaudited)	*31 December 2012*
Borrowings from international credit institutions	542,086	596,700
Eurobonds	424,854	420,849
Time deposits and inter-bank loans	204,165	113,222
Short-term loans from the National Bank of Georgia	89,079	310,178
Correspondent accounts	7,266	7,969
Subtotal	**1,267,450**	**1,448,918**
Non-convertible subordinated debt	208,236	208,244
Amounts due to credit institutions	**1,475,686**	**1,657,162**

During the six months of 2013 the Group paid up to 6.23% on USD borrowings from international credit institutions (2012: up to 6.29%). During the six months of 2013 the Group paid up to 11.33% on USD subordinated debt (2012: up to 11.65%).

Some long-term borrowings from international credit institutions are subject to certain conditions (the "Lender Covenants"). These covenants require the Group to maintain different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 30 June 2013 and 31 December 2012 the Group complied with all the Lender Covenants of the borrowings from international credit institutions.

On 5 July 2012 the Bank completed the issuance of its USD 250 million (GEL 411 million) 7.75% notes due 2017. The Regulation S / Rule 144A 5-year senior unsecured notes carry a 7.75% coupon rate per annum, paid semi-annually, and were issued and sold at closing at a price of 99.491% of principal amount. Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities Ltd. and Merrill Lynch International acted as Joint Lead Managers and Bookrunners for the notes. Dechert LLP and Baker & McKenzie LLP acted as legal advisors to the Joint Lead Managers and the Bank, respectively. The notes are rated BB- (Fitch) / Ba3 (Moody's) / BB- (Standard & Poor's). The notes are listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's Regulated Market.

12. Equity

Share capital

As at 30 June 2013, issued share capital comprised 35,909,383 common shares, of which 35,909,383 were fully paid (31 December 2012: 35,909,383 authorised common shares, of which 35,909,383 were issued and fully paid). Each share has a nominal value of one (1) British Penny (31 December 2012: one (1) British Penny). Shares issued and outstanding as at 30 June 2013 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2011	**32,877,547**	**32,878**
Issue of share capital	3,635,006	3,635
Conversion of shares following the Tender Offer*	(603,170)	(36,513)
Share capital adjustment for new nominal value**	–	943
Effect of translation of equity components to presentation currency	–	(21)
30 June 2012 (unaudited)	**35,909,383**	**922**
31 December 2012	**35,909,383**	**957**
Effect of translation of equity components to presentation currency	–	(54)
30 June 2013 (unaudited)	**35,909,383**	**903**

603,170 is the number of JSC Bank of Georgia shares that were not converted into Bank of Georgia Holdings Plc shares.

*****GEL 943 is the nominal value of 35,909,383 Bank of Georgia Holdings Plc shares translated into GEL with the shares conversion date official exchange rate.***

On 24 February 2012 EBRD and IFC utilized the convertibility feature and converted US$ 49,903,083 of their respective loans to the Bank into the Bank's shares. Total number of ordinary shares issued under this transaction comprised 3,635,006.

On 28 February 2012 the Group completed the Tender Offer under which 35,909,383 of the Bank's shares then outstanding (or 98.35 per cent) were converted into 35,909,383 shares of Bank of Georgia Holdings PLC ("BGH"). Refer to Note 1.

Share capital of the Group was paid by the shareholders in Georgian Lari and they were entitled to dividends in Georgian Lari before the Tender Offer and are entitled to dividends in British Pound Sterling after the Tender Offer.

Capital Reduction

Following Admission, directors of BGH undertook reduction of capital in order to create distributable reserves for BGH. Original difference between the nominal value of BGH's shares and the fair value of the Bank's shares was credited to merger reserve created in connection with the Tender Offer. It was the intention of BGH's directors that the maximum amount of distributable reserves was created and therefore any merger reserve created in connection with the Tender Offer was capitalized into Class A shares. The Class A shares were allotted pro rata to holders of BGH shares. BGH directors implemented a court approved reduction of capital which reduced the original (Tender Offer) nominal value of BGH shares and cancelled all the Class A shares in issue resulting from the capitalization of the respective merger reserve.

BGH shares had original (Tender Offer) nominal value of GBP 6.00 per share. Following reduction of capital the nominal value of BGH shares was reduced to GBP 0.01. Reduction of the capital created a new reserve on the statement of financial position of BGH (comprising reduction of the original nominal value from GBP 6.00 to GBP 0.01 per share plus aggregate nominal amount of all of the Class A shares which were cancelled). Reduction of capital is a legal and accounting adjustment and did not, of itself, have any direct impact on the market value of BGH shares.

As a result of the capital reduction in BGH, the Group's total additional paid-in capital became distributable to the shareholders and was fully reclassified to retained earnings.

12. Equity (continued)

Treasury shares

Treasury shares of 1,973,376 as at 30 June 2013 comprise the Group's shares owned by the Bank (31 December 2012: 2,576,747). Purchase of treasury shares were conducted by the Bank in the open market.

Dividends

On 23 May 2013, the Directors of Bank of Georgia Holdings PLC declared 2013 interim dividends comprising Georgian Lari 1.5 per share. The currency conversion date was set at 10 June 2013, with the official GEL – GBP exchange rate of 2.6051, resulting in a GBP denominated interim dividend of 0.5758 per share. Payment of the total GEL 49,483 interim dividends was received by shareholders on 19 June 2013.

On 7 June 2012, the Directors of Bank of Georgia Holdings PLC declared 2012 interim dividends comprising Georgian Lari 0.7 per share. The currency conversion date was set at 25 June 2012, with the official GEL – GBP exchange rate of 2.5626, resulting in a GBP denominated interim dividend of 0.2732 per share. Payment of the total GEL 23,618 interim dividends was received by shareholders on 2 July 2012.

Nature and purpose of other reserves

Revaluation reserve for property and equipment

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

Unrealised gains (losses) on investment securities available-for-sale

This reserve records fair value changes on investment securities available-for-sale.

Unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries

This reserve records unrealised gains (losses) from dilution or sale / acquisition of shares in existing subsidiaries.

Foreign currency translation reserve

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

Movements in other reserves during six months of 2013 and 2012 are presented in the statements of other comprehensive income.

12. Equity (continued)

Earnings per share

	For the six months ended	
	30 June 2013	***30 June 2012***
Basic earnings per share		
Profit for the period attributable to ordinary shareholders of the Group	91,735	84,212
Weighted average number of ordinary shares outstanding during the	34,030,799	32,807,562
Basic earnings per share	2.6956	2.5668
Dilution effect		
Interest expenses on convertible debt instruments, net of tax	–	1,116
Weighted average number of dilutive potential ordinary shares	–	1,058,546
Diluted earnings per share		
Profit for the period attributable to ordinary shareholders of the Group	91,735	85,328
Weighted average number of diluted ordinary shares outstanding during	34,030,799	33,866,108
Diluted earnings per share	2.6956	2.5196

On 24 February 2012 the Group converted certain part of its loans taken from EBRD and IFC into 3,635,006 ordinary shares of the Group. Their conversion decreased earnings per share. However, it also reduced the Group's interest expense on these debt instruments and increased the total profit attributable to ordinary shareholders of the Group.

13. Commitments and Contingencies

Legal

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

Financial commitments and contingencies

As at 30 June 2013 and 31 December 2012 the Group's financial commitments and contingencies comprised the following:

	30 June 2013 *(unaudited)*	***31 December 2012***
Credit-related commitments		
Guarantees issued	456,968	502,511
Undrawn loan facilities	141,811	140,003
Letters of credit	43,725	100,023
	642.504	**742.537**
Operating lease commitments		
Not later than 1 year	6,319	5,666
Later than 1 year but not later than 5 years	13,056	11,722
Later than 5 years	1,631	2,172
	21.006	**19.560**
Capital expenditure commitments	**1,325**	**3,069**
Less – Cash held as security against letters of credit and guarantees (Note 10)	(22,315)	(31,439)
Less – Provisions	(483)	(683)
Financial commitments and contingencies, net	**642,037**	**733,044**

13. Commitments and Contingencies (continued)

As at 30 June 2013 the capital expenditure represented the commitment for purchase of property and capital repairs of GEL 277 and software and other intangible assets of GEL 1,048. As at 31 December 2012 the capital expenditure represented the commitment for purchase of property and capital repairs of GEL 948 and software and other intangible assets of GEL 2,121.

14. Net Fee and Commission Income

	For the six months ended	
	2013	*2012*
Settlements operations	35,333	32,139
Guarantees and letters of credit	12,592	13,172
Cash operations	4,020	4,319
Currency conversion operations	1,212	719
Brokerage service fees	475	404
Advisory	264	–
Other	1,003	724
Fee and commission income	**54,899**	**51,477**
Settlements operations	(8,699)	(7,254)
Guarantees and letters of credit	(1,883)	(1,533)
Cash operations	(682)	(298)
Insurance brokerage service fees	(576)	(388)
Currency conversion operations	(34)	(42)
Other	(749)	(429)
Fee and commission expense	**(12,623)**	**(9,944)**
Net fee and commission income	**42,276**	**41,533**

15. Impairment Charge on Other Assets and Provisions

Out of GEL 13,286 impairment charge on other assets and provisions for the six months ended 30 June 2013, GEL 10,128 constitutes provision for guarantees issued on one large corporate borrower (2012: GEL 659).

16. Financial Instruments

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the Group as at 30 June 2013 (*unaudited*) and 31 December 2012:

	30 June 2013 (unaudited)			*31 December 2012*		
	Loans and receivables	***Available-for sale***	***Fair value through profit or loss***	***Loans and receivables***	***Available-for sale***	***Fair value through profit or loss***
Financial assets						
Loans to customers	3,095,684	–	–	3,020,632	–	–
Finance lease receivables	27,232	–	–	71,686	–	–
Trade and other receivables (in other assets)	113,888	–	–	100,893	–	–
Equity instruments	–	5,293	365	–	5,943	211
Debt instruments	–	638,944	1,671	–	458,018	760
Foreign currency derivative financial instruments	–	–	36,258	–	–	36,518
Commodity options	–	–	–	–	–	266
Total:	**3,236,804**	**644,237**	**38,294**	**3,193,211**	**463,961**	**37,755**
Financial liabilities						
Amounts owed to customers	2,850,234	–	–	2,693,023	–	–
Amounts owed to credit institutions	1,475,686	–	–	1,657,163	–	–
Trade and other payables (in other liabilities)	48,183	–	–	59,980	–	–
Foreign currency derivative financial instruments	–	–	895	–	–	84
Interest rate swaps	–	–	2,915	–	–	4,783
Total:	**4,374,103**	**–**	**3,810**	**4,410,166**	**–**	**4,867**

Financial instruments recorded at fair value

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

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

16. Financial Instruments (continued)

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

	Level 1	*Level 2*	*Level 3*	*Total 30 June 2013 (unaudited)*
Financial assets				
Investment securities – available-for-sale	102	638,952	5,183	644,237
Other assets – derivative financial assets	–	36,258	–	36,258
Other assets – trading securities owned	2,036	–	–	2,036
	2,138	**675,210**	**5,183**	**682,531**
Financial liabilities				
Other liabilities – derivative financial	–	3,810	–	3,810

	Level 1	*Level 2*	*Level 3*	*Total 31 December 2012*
Financial assets				
Investment securities – available-for-sale	47	458,025	5,888	463,960
Other assets – derivative financial assets	–	36,784	–	36,784
Other assets – trading securities owned	971	–	–	971
	1,018	**494,809**	**5,888**	**501,715**
Financial liabilities				
Other liabilities – derivative financial	–	4,867	–	4,867

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

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

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

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

	At 31 December 2011	*Sale of AFS securities*	*Transfers from level 2*	*At 31 December 2012*	*Sale of AFS securities*	*At 30 June 2013 (unaudited)*
Financial assets						
Equity investment securities available-for-sale	4,034	(1,983)	3,837	5,888	(705)	5,183

No financial instruments were transferred during ***the*** six months ended 30 June 2013 from level 1 and level 2 to level 3 of the fair value hierarchy. Gains or losses on level 3 financial instruments during the six months ended 30 June 2013 comprised nil (2012: nil).

16. Financial Instruments (continued)

Financial instruments recorded at fair value (continued)

No financial instruments were transferred during the six months ended 30 June 2012 between level 1 and level 2 of the fair value hierarchy.

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

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

	Carrying amount	*Effect of reasonably possible alternative assumptions*	*Carrying amount*	*Effect of reasonably possible alternative assumptions*
	***30 June 2013** (unaudited)*		***31 December 2012***	
Financial assets				
Investment securities – available-for-sale	5,183	+/- 780	5,888	+/- 886

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

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

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

	Carrying value 30 June 2013 (unaudited)	*Fair value 30 June 2013 (unaudited)*	*Unrecognised gain (loss) 30 June 2013 (unaudited)*	*Carrying value 31 December 2012*	*Fair value 31 December 2012*	*Unrecognised loss 31 December 2012*
Financial assets						
Cash and cash equivalents	547,404	547,404	–	762,827	762,827	–
Amounts due from credit institutions	326,537	326,537	–	396,559	396,559	–
Loans to customers	3,095,684	3,182,180	86,496	3,020,634	2,995,632	(25,002)
Finance lease receivables	27,232	27,232	–	71,686	71,686	–
Financial liabilities						
Amounts due to customers	2,850,234	2,893,241	(43,007)	2,693,025	2,707,231	(14,206)
Amounts due to credit institutions	1,475,686	1,475,686	–	1,657,162	1,657,162	–
Total unrecognised change in unrealised fair value			**43,489**			**(39,208)**

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

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

17. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to their contractual repayment dates.

	30 June 2013 (unaudited)							
	On Demand	***≤ 3 Months***	***≤ 6 Months***	***≤ 1 Year***	***≤ 3 Years***	***≤ 5 Years***	***> 5 Years***	***Total***
Financial assets								
Cash and cash equivalents	479,656	67,748	–	–	–	–	–	547,404
Amounts due from credit institutions	290,100	14,640	6,634	4,598	6,362	4,203	–	326,537
Investment securities available–for–sale	5,204	267,673	172,352	63,602	43,829	80,418	11,160	644,238
Loans to customers	–	615,206	345,220	611,454	906,128	419,459	198,217	3,095,684
Finance lease receivables	–	4,788	4,257	6,501	10,852	834	–	27,232
Total	**774,960**	**970,055**	**528,463**	**686,155**	**967,171**	**504,914**	**209,377**	**4,641,095**
Financial liabilities								
Amounts due to customers	374,909	375,756	238,768	1,607,702	190,627	52,438	10,034	2,850,234
Amounts due to credit institutions	7,266	344,593	56,721	122,492	294,051	546,060	104,503	1,475,686
Total	**382,175**	**720,349**	**295,489**	**1,730,194**	**484,678**	**598,498**	**114,537**	**4,325,920**
Net	**392,785**	**249,706**	**232,974**	**(1,044,039)**	**482,493**	**(93,584)**	**94,840**	**315,175**

	31 December 2012							
	On Demand	***≤ 3 Months***	***≤ 6 Months***	***≤ 1 Year***	***≤ 3 Years***	***≤ 5 Years***	***> 5 Years***	***Total***
Financial assets								
Cash and cash equivalents	586,852	175,975	–	–	–	–	–	762,827
Amounts due from credit institutions	322,871	48,143	5,790	4,557	9,136	4,448	1,614	396,559
Investment securities available–for–sale	5,200	168,670	114,920	41,159	76,185	51,777	6,049	463,960
Loans to customers	–	605,509	312,302	624,819	923,503	361,248	193,253	3,020,634
Finance lease receivables	–	9,058	5,716	10,353	25,886	13,049	7,624	71,686
Total	**914,923**	**1,007,355**	**438,728**	**680,888**	**1,034,710**	**430,522**	**208,540**	**4,715,666**
Financial liabilities								
Amounts due to customers	355,835	453,796	214,743	1,337,512	283,000	39,694	8,445	2,693,025
Amounts due to credit institutions	40,321	436,155	49,362	164,137	341,179	524,309	101,699	1,657,162
Total	**396,156**	**889,951**	**264,105**	**1,501,649**	**624,179**	**564,003**	**110,144**	**4,350,187**
Net	**518,767**	**117,404**	**174,623**	**(820,761)**	**410,531**	**(133,481)**	**98,396**	**365,479**

The Group's capability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. In the Georgian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, maturity analysis gap does not reflect the historical stability of current accounts, while many time deposits are usually prolonged. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in on demand category in the tables above.

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

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

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

As at 30 June 2013 amounts owed to customers amounted to GEL 2,850,234 (31 December 2012: GEL 2,693,025) and represented 62% (31 December 2012: 59%) of Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 30 June 2013 amounts owed to credit institutions amounted to GEL 1,475,686 (31 December 2012: GEL 1,657,162) and represented 32% (31 December 2012: 36%) of total liabilities.

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

18. Related Party Disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

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

	2013 (unaudited)			*2012 (unaudited)*		
	Shareholders	***Associates***	***Key management personnel****	***Shareholders***	***Associates***	***Key management personnel****
Loans outstanding at 1 January, gross	–	–	**5,136**	**–**	**304**	**6,558**
Loans issued during the period	–	–	1,114	–	514	3,721
Loan repayments during the period	–	–	(1,416)	–	(582)	(4,883)
Other movements	–	–	(4,269)	–	(7)	12
Loans outstanding at 30 June, gross	–	–	**565**	**–**	**229**	**5,408**
Less: allowance for impairment at 30 June	–	–	(6)	–	(3)	(86)
Loans outstanding at 30 June, net	–	–	**559**	**–**	**226**	**5,322**
Interest income on loans	–	–	78	–	24	355
Loan impairment charge	–	–	(46)	–	2	(5)
Deposits at 1 January	**11,636**	**17**	**9,681**	**36,730**	**171**	**5,903**
Deposits received during the period	2,330	54	8,448	1,198	9,929	14,899
Deposits repaid during the period	(3,609)	(54)	(6,920)	(7,845)	(9,684)	(11,818)
Other movements	(148)	(17)	(4,463)	(1,644)	29	888
Deposits at 30 June	**10,209**	–	**6,746**	**28,439**	**445**	**9,872**
Interest expense on deposits	325	–	210	1,552	17	287
Other income	–	–	53	363	–	70

18. Related Party Disclosures (continued)

	2013 (unaudited)			*2012*		
	Shareholders	*Associates*	*Key management personnel*	*Shareholders*	*Associates*	*Key management personnel*
Amounts due to credit institutions at 1 January	**233,441**	**–**	**–**	**–**	**–**	**–**
Conversion of convertible subordinated debts**	–	–	–	264,481	–	–
Received during the period	9,076	–	–	4,372	–	–
Repaid during the period	(33,329)	–	–	(17,277)	–	–
Other movements	(1,546)	–	–	(14,896)	–	–
Amounts due to credit institutions at 30 June	**207,642**	**–**	**–**	**236,680**	**–**	**–**
Interest expense on amounts due to credit institutions	9,648	–	–	9,097	–	–
Interest rate swaps* at 1 January**	**4,783**	**–**	**–**	**–**	**–**	**–**
Conversion of convertible subordinated debts**	–	–	–	6,882	–	–
Payments during the period	(2,118)	–	–	(768)	–	–
Changes in fair values of interest rate swaps	185	–	–	1,053	–	–
Interest rate swaps at 30 June	**2,850**	**–**	**–**	**7,167**	**–**	**–**
Net loss from interest rate swaps	(185)	–	–	(1,053)	–	–

Key management personnel include members of BGH's Board of Directors and Chief Executive Officer, Deputies of the Bank and their close family members. Deposits of close family members as at 30 June 2013 comprised GEL 1,850, interest expense on these deposits during six months ended 30 June 2013 was GEL 80.
***** On 24 February 2012 the EBRD and IFC utilized the equity conversion feature of subordinated convertible loans, becoming shareholders of the Group.***
****** Interest rate swap agreements with IFC.***

Compensation of key management personnel was comprised of the following:

	For the six months ended 30 June	
	2013 *(unaudited)*	**2012** *(unaudited)*
Salaries and other benefits	1,854	1,577
Share-based payments compensation	6,858	7,787
Social security costs	13	13
Total key management compensation	**8,725**	**9,377**

The number of key management personnel at 30 June 2013 was 14 (31 December 2012: 15).

19. Capital Adequacy

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

During the six months ended 30 June 2013, the Bank and the Group had complied in full with all its externally imposed capital requirements.

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

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

19. Capital Adequacy (continued)

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum total capital adequacy ratio of 12% of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 30 June 2013 and 31 December 2012 the Bank's capital adequacy ratio on this basis was as follows:

	30 June 2013 *(unaudited)*	***31 December 2012***
Core capital	820,583	739,880
Supplementary capital	313,679	389,685
Less: Deductions from capital	(265,830)	(262,616)
Total regulatory capital	**868,432**	**866,949**
Risk-weighted assets	**5,312,961**	**5,352,187**
Total capital adequacy ratio	**16.3%**	**16.2%**

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

Capital adequacy ratio under Basel Capital Accord 1988s

The Bank's capital adequacy ratio based on consolidated statement of financial position and computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 30 June 2013 and 31 December 2012, follows:

	30 June 2013 *(unaudited)*	***31 December 2012***
Tier 1 capital	1,092,460	1,053,597
Tier 2 capital	281,552	285,132
Less: Deductions from capital	(46,121)	(46,121)
Total regulatory capital	**1,327,891**	**1,292,608**
Risk-weighted assets	**4,769,670**	**4,785,870**
Total capital adequacy ratio	27.8%	27.0%
Tier 1 capital adequacy ratio	22.9%	22.0%
Minimum total capital adequacy ratio	**8.0%**	**8.0%**

Abbreviations

AML Anti-Money Laundering
ATMs Automated Teller Machines
BGH Bank of Georgia Holdings PLC
BNB Belarusky Narodny Bank, the Bank's Belarus subsidiary
BYR Belarusian Rouble, national currency of the Republic of Belarus
CHF Swiss Franc, national currency of Switzerland
CPI Consumer Price Index
DFI Developmental Financial Institutions
EBRD European Bank for Reconstruction and Development
EPS Earnings per share
FDI Foreign Direct Investment
FTE Full Time Employee
GBP Great British Pound, national currency of the UK
GDP Gross Domestic Product
GDRs Global Depository Receipts
GEL Georgian Lari or Lari, national currency of Georgia
GLC Georgian Leasing Company, wholly owned subsidiary of the Bank
IAS International Accounting Standards
IASB International Accounting Standards Board
IFC International Finance Corporation
IFRS International Financial Reporting Standards
IRR Internal Rate of Return
JSC Joint Stock Company
LSE London Stock Exchange
MLN Million
NBG National Bank of Georgia
NMF Not Meaningful to Present
NPLs Non-Performing Loans
POS Point of Sale
PPP Purchasing Power Parity
Q-O-Q Quarter-to-quarter
ROAA Return on Average Assets
ROAE Return on Average Equity
SMEs Small and Medium Size Enterprises
UAH Ukrainian Hryvna, national currency of Ukraine
UK United Kingdom of Great Britain and Northern Ireland
US$ The US Dollar, national currency of the United States of America
YE Year-end
Y-O-Y Year-on-year
YTD Year-to-date

Glossary

Aldagi	Aldagi is an insurance and healthcare subsidiary of JCS Bank of Georgia
Adjusted NIM	Adjusted NIM assuming that daily average access liquidity amount is equal to the previous period daily excess liquidity amount. Entire surplus amount over that level is assumed to be used for repayment of foreign currency denominated funding.
Asset and Liability Committee (ALCO)	The core risk management body that establishes policies and guidelines with respect to various aspects of risk management strategy
Asian Development Bank (ADB)	A regional development bank established to facilitate economic development of countries in Asia
Average Interest Earning Assets	Calculated on a monthly basis; Interest earning assets excluding cash include: investment securities (but excluding corporate shares and other equity instruments) and loans to customers and finance lease receivables
Belarusky Narodny Bank (BNB)	Belarusian banking subsidiary of Bank of Georgia Group
BG Bank	Currently PJSC Bank Pershyi. In February 2011, the Group disposed of an 80.0% equity interest in BG Bank
BG Capital	The Bank's wholly-owned subsidiary providing brokerage, custody and corporate finance services
Developmental Financial Institutions (DFIs)	Developmental 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 EBRD and IFC
Express Pay terminal	A payment terminal enabling customers to make various payments remotely including utility bill payments and loan repayments at a wide variety of locations
Georgian Leasing Company (GLC)	The Bank's wholly-owned subsidiary through which it provides finance leasing services
Geostat	National Statistics Office of Georgia
Global Depository Receipt (GDR)	A certificate issued by a depositary bank, which represents ownership of an underlying number of shares
Gross loans	In all sections, except for the Consolidated Financial Statements, gross loans are defined as gross loans to customers and gross finance lease receivables
International Finance Corporation (IFC)	A member of the World Bank Group, the largest global development institution focused exclusively on the private sector in developing countries
Kreditanstalt fuer Wiederaufbau (KfW)	German-government owned development bank
Liberty Consumer	A Georgia-focused investment company in which the Bank holds a 65% stake
m2 Real Estate	Real Estate business of the Group, formerly known as SB Real Estate
Market share(s)	Market share data is based on the information provided by the National Bank of Georgia. For Bank of Georgia, market share represents market share based on total assets as of 31 December 2012 (unless noted otherwise) on a standalone basis. For Aldagi, market share is provided based on the gross insurance premium revenue as of 30 September 2012
My Family Clinic	Healthcare subsidiary of Aldagi
Net loans	In all sections, except for the consolidated audited financial statements, net loans are defined as gross loans to customers and finance lease receivables less allowance for impairment
Non-performing loans (NPLs)	The principal and interest on loans overdue for more than 90 days and any additional losses estimated by management
Operating cost	Other operating expenses
Reserve For Loan Losses To Gross Loans	Allowance for impairment of loans and finance lease receivables divided by gross loans and finance lease receivables
Tender Offer	BGH a public limited liability company launched the tender offer to exchange its entire ordinary share capital for an equivalent number of the Bank's ordinary shares and thus to acquire the entire issued and to be issued share capital, including those shares represented by GDRs, of the Bank in December 2011. Tender Offer was successfully completed in February 2012
Weighted average number of ordinary shares	Average of daily outstanding number of shares less daily outstanding number of treasury shares
Weighted average diluted number of ordinary shares	Weighted average number of ordinary shares plus weighted average dilutive number of shares known to the management during the same period

SHAREHOLDER INFORMATION

BANK OF GEORGIA HOLDINGS PLC

Registered Address
84 Brook Street
London W1K 5EH
United Kingdom
www.bogh.co.uk
Registered under number 7811410 in England and Wales
Incorporation date: 14 October 2011

Stock Listing
London Stock Exchange plc's Main Market for
listed securities
Ticker: "BGEO.LN"

Contact Information
Bank of Georgia Holdings Plc Investor Relations
Telephone: +44 (0) 20 3178 4052
Email: ir@bog.ge
www.bogh.co.uk

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

Registrar
Computershare Investor Services PLC
The Pavilions
Bridgewater Road
Bristol BS13 8AE
United Kingdom

Share price information
BGH shareholders can access both the latest and historical prices via our website, www.bogh.co.uk

JOINT STOCK COMPANY BANK OF GEORGIA

Registered Address
29a Gagarini Street, Tbilisi 0160 Georgia, www.bankofgeorgia.ge

Stock Listing
Georgia Stock Exchange (GSE)
Ticker symbol for Bank of Georgia share is GEB

Registrar
Kavkazreestri, 74a Chavchavadze Avenue, Tbilisi, Georgia 0162