

**Bank of Georgia Holdings PLC and
Subsidiaries
Unaudited Interim Condensed
Consolidated Financial Statements**

30 June 2012

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INDEPENDENT REVIEW REPORT TO BANK OF GEORGIA HOLDINGS PLC

Introduction

We have been engaged by the Company to review the interim condensed set of financial statements for the six months ended 30 June 2012 which comprises a 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 21.

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 statements are the responsibility of, and have been approved by, the directors.

As disclosed in note 2, the annual financial statements of the company are prepared in accordance with IFRSs as adopted by the European Union. The interim condensed financial statements have 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 interim condensed set of financial statements 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 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Ernst & Young LLP

Ernst & Young LLP
London
16 August 2012

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**As at 30 June 2012***(Thousands of Georgian Lari)*

	Notes	As at	
		30 June 2012	31 December 2011
		<i>Unaudited</i>	
Assets			
Cash and cash equivalents	6	374,997	628,731
Amounts due from credit institutions	7	342,145	289,530
Investment securities available-for sale	8	414,583	419,576
Loans to customers	9	2,856,879	2,553,442
Finance lease receivables		66,261	62,919
Investments in associates		2,867	3,014
Investment properties	10	138,639	101,686
Property and equipment		407,428	348,110
Goodwill		45,292	46,195
Other intangible assets		20,318	21,222
Current income tax assets		7,996	8,487
Deferred income tax assets		15,893	14,852
Prepayments		36,321	29,929
Other assets		205,388	137,568
Total assets		4,935,007	4,665,261
Liabilities			
Amounts due to customers	11	2,846,263	2,735,222
Amounts due to credit institutions	12	875,929	921,172
Current income tax liabilities		910	1,174
Deferred income tax liabilities		54,855	36,242
Other liabilities		199,656	158,848
Total liabilities		3,977,613	3,852,658
Equity	13		
Share capital		922	32,878
Additional paid-in capital		-	473,732
Treasury shares		(66)	(3,146)
Other reserves		11,508	14,478
Retained earnings		899,933	254,588
Total equity attributable to shareholders of the Group		912,297	772,530
Non controlling interests		45,097	40,073
Total equity		957,394	812,603
Total liabilities and equity		4,935,007	4,665,261

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

Irakli Gilauri



Chief Executive Officer

David Vakhtangishvili



Chief Financial Officer

16 August 2012

The accompanying selected explanatory notes on pages 7 to 33 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT**For the six months ended 30 June 2012***(Thousands of Georgian Lari)*

	<i>For the six months ended 30 June</i>	
	<i>Notes</i>	<i>2012 2011</i>
	<i>Unaudited</i>	
Interest income		
Loans to customers		244,965
Investment securities – available-for-sale		17,806
Amounts due from credit institutions		9,624
Finance lease receivables		4,133
		<u>276,528</u>
		<u>211,466</u>
Interest expense		
Amounts due to customers		(103,765)
Amounts due to credit institutions		(34,047)
		<u>(137,812)</u>
		<u>(75,628)</u>
Net interest income before net (losses) gains from derivative financial instruments		<u>138,716</u>
		<u>113,366</u>
Net (losses) gains from derivative financial instruments		(1,053)
		<u>2,492</u>
Net interest income		<u>137,663</u>
		<u>115,858</u>
Fee and commission income		51,477
Fee and commission expense		(9,944)
Net fee and commission income	15	<u>41,533</u>
		<u>43,636</u>
Net insurance premiums earned		32,383
Net insurance claims incurred		(20,426)
Net insurance revenue		<u>11,957</u>
		<u>23,123</u>
Healthcare revenue		22,587
Cost of healthcare services		(13,391)
Net healthcare revenue		<u>9,196</u>
		<u>1,523</u>
Net gains from trading securities and investment securities available-for-sale		953
Net gains from foreign currencies:		
– dealing		17,187
– translation differences		9,004
Other operating income	16	11,492
Other operating non-interest income		<u>38,636</u>
		<u>53,494</u>
Revenue		<u>238,985</u>
		<u>213,408</u>
Salaries and other employee benefits		(57,829)
General and administrative expenses		(33,762)
Depreciation and amortization		(13,919)
Other operating expenses		(3,554)
Other operating non-interest expenses		<u>(109,064)</u>
		<u>(56,236)</u>
Operating income before cost of credit risk		<u>129,921</u>
		<u>109,883</u>

The accompanying selected explanatory notes on pages 7 to 33 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)**For the six months ended 30 June 2012***(Thousands of Georgian Lari)*

	<i>Notes</i>	<i>For the six months ended 30 June</i>	
		<i>2012</i>	<i>2011</i>
		<i>Unaudited</i>	
Operating income before cost of credit risk		129,921	109,883
Impairment charge on loans to customers		(13,001)	(11,331)
Impairment charge on finance lease receivables		(241)	(171)
Impairment charge on other assets and provisions		(705)	3,240
Cost of credit risk		(13,947)	(8,262)
Net operating income		115,974	101,621
Impairment of receivables from sale of subsidiary		(2,106)	–
Impairment charge on goodwill		(659)	(13,000)
Impairment charge on intangible assets		(226)	–
Loss from hyperinflation		(211)	–
Share of loss of associates		(143)	(251)
Impairment charge on property and equipment		(29)	–
Other non-operating income		102	–
Other non-operating expenses		(9,121)	(5,452)
Net non-operating expenses		(12,393)	(18,703)
Profit before income tax expense from continuing operations		103,581	82,918
Income tax expense		(17,542)	(6,926)
Profit for the period from continuing operations		86,039	75,992
Net loss from discontinued operations		–	(12,247)
Profit for the period		86,039	63,745
Attributable to:			
– shareholders of the Group		84,212	63,645
– non-controlling interests		1,827	100
		86,039	63,745
Earnings per share:	13		
– basic earnings per share		2.5668	2.1262
– diluted earnings per share		2.5196	2.0178
Earnings per share from continuing operations:	13		
– basic earnings per share for continuing operations		2.5668	2.5353
– diluted earnings per share for continuing operations		2.5196	2.3844

The accompanying selected explanatory notes on pages 7 to 33 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**For the six months ended 30 June 2012***(Thousands of Georgian Lari)*

	<i>For the six months ended</i>	
	<i>30 June</i>	
<i>Notes</i>	<i>2012</i>	<i>2011</i>
	<i>Unaudited</i>	
Profit for the period from continuing operations	86,039	75,992
Net loss from discontinued operations	–	(12,247)
Profit for the period	86,039	63,745
Other comprehensive income (loss) from continuing operations		
– Revaluation of available-for-sale securities	(195)	781
– Realized gain on available-for-sale securities reclassified to the consolidated income statement	(844)	(579)
– Loss from currency translation differences	13 (5,607)	(42,050)
– Revaluation of property & equipment	–	7,479
Income tax benefit relating to components of other comprehensive income	830	3,299
Other comprehensive loss for the period from continuing operations, net of tax	(5,816)	(31,070)
Other comprehensive income from discontinued operations	–	24,254
Other comprehensive loss for the period, net of tax	(5,816)	(6,816)
Total comprehensive income for the period from continuing operations	80,223	44,922
Total comprehensive income for the period from discontinued operations	–	12,007
Total comprehensive income for the period	80,223	56,929
Attributable to:		
– shareholders of the Group	78,898	61,682
– non-controlling interests	1,325	(4,753)
	80,223	56,929

The accompanying selected explanatory notes on pages 7 to 33 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**For the six months ended 30 June 2012***(Thousands of Georgian Lari)*

	<i>Attributable to shareholders of the Group</i>					<i>Total</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Treasury shares</i>	<i>Other reserves</i>	<i>Retained earnings</i>			
31 December 2010	31,345	477,285	(1,510)	26,816	130,314	664,250	29,091	693,341
Total comprehensive income (loss) for the six months ended 30 June 2011	-	-	-	3,140	58,542	61,682	(4,753)	56,929
Depreciation of revaluation reserve, net of tax	-	-	-	(1,893)	1,893	-	-	-
Increase in share capital arising from share-based payments (Note 13)	15	2,103	112	-	-	2,230	-	2,230
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	-	-	-	-	-	-	124	124
Sale of treasury shares	-	18,415	603	-	-	19,018	-	19,018
Purchase of treasury shares	-	(19,248)	(633)	-	-	(19,881)	-	(19,881)
30 June 2011	31,360	478,555	(1,428)	28,063	190,749	727,299	24,462	751,761
31 December 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 13)	3,635	70,313	-	-	-	73,948	-	73,948
Conversion of shares following the Tender Offer (Note 13)	(35,570)	23,983	2,507	(497)	(4,589)	(14,166)	14,166	-
Effect of translation of equity components to presentation currency (Note 13)	(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 13)	-	-	-	-	(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 13)	-	(582,388)	-	-	582,388	-	-	-
30 June 2012 (unaudited)	922	-	(66)	11,508	899,933	912,297	45,097	957,394

The accompanying selected explanatory notes on pages 7 to 33 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)*

	<i>For the six months ended 30 June</i>		
	<i>Notes</i>	<i>2012</i>	<i>2011</i>
	<i>Unaudited</i>		
Cash flows from (used in) operating activities			
Interest received		267,803	235,487
Interest paid		(130,405)	(109,550)
Fees and commissions received		51,477	43,636
Fees and commissions paid		(9,944)	(9,666)
Insurance premiums received		32,383	23,614
Insurance claims paid		(20,426)	(12,420)
Healthcare revenue received		22,587	1,523
Cost of healthcare services paid		(13,391)	(533)
Net realized gains from trading securities		109	538
Net realized losses from investments securities		844	579
Net realized gains from foreign currencies		17,187	21,112
Recoveries of previously written off loans to customers and finance lease receivables		16,028	13,751
Other operating income received		1,787	5,958
Salaries and other employee benefits paid		(61,247)	(54,753)
General and administrative and operating expenses paid		(41,347)	(46,704)
Cash flows from operating activities before changes in operating assets and liabilities		133,445	112,572
<i>Net (increase) decrease in operating assets</i>			
Amounts due from credit institutions		(45,626)	(196,481)
Loans to customers		(360,192)	(41,350)
Finance lease receivables		(3,342)	(50,549)
Prepayments and other assets		(19,304)	(5,510)
<i>Net increase (decrease) in operating liabilities</i>			
Amounts due to credit institutions		(3,737)	(149,028)
Amounts due to customers		101,668	206,699
Other liabilities		(18,132)	(7,530)
Net cash flows used in operating activities before income tax		(215,220)	(131,177)
Income tax paid		(1,409)	(7,000)
Net cash flows used in operating activities		(216,629)	(138,177)
Cash flows from (used in) investing activities			
Acquisition of subsidiaries, net of cash acquired	5	(7,946)	-
Proceeds from sale of subsidiary		-	8,747
Proceeds from sale of investments in associates		-	332
Purchase of investment securities: available-for-sale		(145,851)	(105,091)
Proceeds from sale of investment securities: available-for-sale		148,628	-
Proceeds from sale of investment properties	10	10,205	400
Purchase of property and equipment and intangible assets		(29,276)	(34,626)
Net cash flows from (used in) investing activities		(24,240)	(130,238)
Cash flows (used in) from financing activities			
Purchase of treasury shares		(712)	(19,881)
Sale of treasury shares		94	19,018
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		(7,401)	(863)
Effect of exchange rates changes on cash and cash equivalents		(5,464)	(3,898)
Net decrease in cash and cash equivalents		(253,734)	(273,176)
Cash and cash equivalents, beginning	6	628,731	611,584
Cash and cash equivalents, ending	6	374,997	338,408

The accompanying selected explanatory notes on pages 7 to 33 are an integral part of these interim condensed consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal Activities

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

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and international and exchanges currencies. Its main office is in Tbilisi, Georgia. At 30 June 2012 the Bank has 179 operating outlets in all major cities of Georgia (31 December 2011: 158). 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, brokerage and wealth management services, to corporate and individual customers.

In December 2011, Bank of Georgia Holdings PLC ("BGH"), a public limited liability company newly incorporated in England and Wales, launched the Tender Offer (the "Tender Offer") to exchange the Bank's 1 ordinary share for BGH's 1 ordinary share and thus to acquire the entire issued and to be issued share capital, including those shares represented by GDRs, of the Bank. Following the successful completion of the Tender Offer on 28 February 2012, BGH holds 98.35% of the share capital of the Bank, representing the Bank's ultimate parent company and together with the Bank's subsidiaries making up a group of companies (the "Group"). Shares of BGH ("BGH Shares") were admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities effective 28 February 2012 ("Admission"). Refer to Note 13.

The treasury shares kept by the Bank for the purposes of its future employee share-based compensation, as of the Tender Offer expiration date have been fully converted into the BGH newly issued shares.

The Bank intends to acquire all of the remaining issued share capital of the Bank held by non-controlling shareholders.

Bank of Georgia Holdings PLC's registered legal address is 84 Brook Street, London, United Kingdom W1K 5EH.

As at 30 June 2012 and 31 December 2011 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 2012, %	31 December 2011, %
East Capital Financial Institutions	17.69%	4.16%
Swedbank AS Estonia	8.63%	—
Prosperity Capital Management	7.77%	—
International Finance Corporation	5.06%	—
European Bank for Reconstruction & Development	5.06%	—
Bank of New York (Nominees), Limited	—	91.45%
Others (less than 4% individually)	55.79%	4.39%
Total	100.00%	100.00%

(Thousands of Georgian Lari)

1. Principal Activities (continued)

As at 30 June 2012, the members of the Supervisory Board and Board of Directors owned 487,379 shares (or 1.40%; 31 December 2011: 474,246 shares and Global Depositary Receipts “GDRs” or 1.44%) of the Group. Interests of the members of the Supervisory Board and Management Board were as follows:

Shareholder	<i>30 June 2012, shares held</i>	<i>31 December 2011, shares and GDRs held</i>
Irakli Gilauri	206,431	194,379
Allan Hirst	60,434	60,434
Sulkhan Gvalia	49,304	58,638
Avto Namicheishvili	34,488	39,823
David Morrison	26,357	20,357
Kaha Kiknavelidze	26,337	26,337
Neil Janin	25,729	15,729
Mikheil Gomarteli	18,867	10,634
Al Breach	18,279	10,279
Vasil Revishvili	7,442	5,908
Archil Gachechiladze	5,983	10,000
Ian Hague	5,112	5,112
Hanna Loikkanen	2,616	2,616
Giorgi Chiladze*	-	14,000
Total	487,379	474,246

As a result of the Bank’s shares conversion into BGH shares in February 2012, the Group has no GDRs outstanding as at 30 June 2012. As at 31 December 2011, 330,973 unrestricted (readily available for sale) GDRs owned by the members of the Management Board comprised as follows:

Member of the Management Board	<i>31 December 2011</i>
Irakli Gilauri	192,792
Avto Namicheishvili	39,001
Giorgi Chiladze*	14,000
Sulkhan Gvalia	58,638
Mikheil Gomarteli	10,634
Archil Gachechiladze	10,000
Vasil Revishvili	5,908
Total	330,973

**Resigned from the management Board of the Group on 26 March 2012.*

2. Basis of Preparation

General

The interim condensed consolidated financial statements for the six months ended 30 June 2012 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.

Following the Tender Offer described in Note 1, the Group’s interim condensed consolidated financial statements for the six months ended 30 June 2012 are a continuation of the existing group of JSC Bank of Georgia and its subsidiaries.

In these condensed interim 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 financial statements only if it is also appropriate to anticipate or defer such costs at the end of the financial year.

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 2011.

These 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 condensed interim 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 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 2011, except for the changes introduced due to implementation of new and/or revised standards and interpretations as of 1 January 2012, noted below:

Amendments to IFRS 7 Financial Instruments: Disclosures

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets.

Amendments to IAS 12 Income Taxes – Deferred tax: Recovery of Underlying Assets

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendments were not effective as at 30 June 2012 in International Financial Reporting Standards (IFRS), as adopted by the European Union.

The above mentioned new or revised standards and interpretations effective from 1 January 2012 did not have a material impact on the accounting policies, financial position or performance of the Group.

Reclassifications

Due to the increased material size of healthcare business, a separate section was added to the income statement with the summary of healthcare revenues and costs of providing these services. The following reclassification was made to the six months ended 30 June 2011 income statement to conform with the six months ended 30 June 2012 presentation requirements:

Six Month Period Ended	Caption Consolidated Statement of Financial Position:			
		<i>As previously reported</i>	<i>Reclassification</i>	<i>As reclassified</i>
30 June 2011	Healthcare revenue	–	1,523	1,523
30 June 2011	Other operating income	12,762	(3,411)	9,351
30 June 2011	Cost of healthcare services	–	(533)	(533)
30 June 2011	Salaries and other employee benefits	(57,722)	1,486	(56,236)
30 June 2011	Other operating expenses	(4,701)	935	(3,766)

Due to the separate presentation of healthcare related revenues and costs 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 2011 statement of cash flows, to conform with the six months ended 30 June 2012 presentation requirements:

Six Month Period Ended	Note 11 Amounts due to customers:			
		<i>As previously reported</i>	<i>Reclassification</i>	<i>As reclassified</i>
30 June 2011	Healthcare revenue received	–	1,523	1,523
30 June 2011	Other operating income received	9,369	(3,411)	5,958
30 June 2011	Cost of healthcare services paid	–	(533)	(533)
30 June 2011	Salaries and other employee benefits paid	(56,239)	1,486	(54,753)
30 June 2011	General and administrative and operating expenses paid	(47,639)	935	(46,704)

(Thousands of Georgian Lari)

3. Summary of Selected Significant Accounting Policies (continued)

Reclassifications (continued)

The Group's demand deposits are now included in current accounts. The following reclassification was made to year ended 31 December 2011 current accounts and time deposits in note 11 – amounts due to customers, to conform with the six months ended 30 June 2012 presentation requirements:

Year Ended	Note 11 Amounts due to customers:	As previously reported	Reclassification	As reclassified
31 December 2011	Current accounts	1,206,750	438,757	1,645,507
31 December 2011	Time deposits	1,347,334	(438,757)	908,577

Functional and reporting currencies and foreign currency translation

The 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 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 2012 and 31 December 2011 were:

	Lari to GBP	Lari to USD	Lari to EUR	Lari to UAH (10)	Lari to BYR (10,000)
30 June 2012	2.5677	1.6451	2.0704	2.0583	1.9773
31 December 2011	2.5776	1.6703	2.1614	2.0905	2.0004

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

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

(Thousands of Georgian Lari)

4. Segment Information

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

- Retail Banking (excluding Retail Banking of BG Bank and BNB)* - Principally providing consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services, and handling customers' deposits for both, individuals as well as legal entities, encompassing mass affluent segment, retail mass markets, small & medium enterprises and micro businesses.
- Corporate Banking (excluding Corporate Banking of BG Bank and BNB)* - Principally providing loans and other credit facilities to large VIP as well as other legal entities, larger than SME and Micro, finance lease facility provided by Georgian Leasing Company LLC, as well as providing funds transfers and settlement services, trade finance services and documentary operations support, handling saving and term deposits for corporate and institutional customers.
- Wealth Management* - Principally providing private banking services to resident as well as non-resident wealthy individuals as well as their direct family members by ensuring individually distinguished approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or while holding their savings and term deposits; Wealth Management involves providing wealth and asset management services to same individuals through different investment opportunities and specifically designed investment products.
- Corporate Centre* - Principally providing back office services to all operating segments of the Group as well as holding all principal investments in subsidiaries.
- Insurance* - Principally providing wide-scale non-life insurance.
- Healthcare* - Integrated healthcare services to corporate clients and insured individuals.
- Affordable Housing (formerly included in Asset Management)* - Comprising JSC SB Real Estate, principally holding investment property repossessed by the Group from defaulted borrowers, managing those property, developing and selling affordable residential apartments.
- BG Capital (formerly named Brokerage)* - Principally providing brokerage, custody and corporate finance services, mostly to wealthy or mass affluent individuals as well as to corporate customers.
- BNB & BGB* - Comprising JSC Belaruskyy Narodnyy Bank and JSC BG Bank (disposed of in February 2011), principally providing retail and corporate banking services in Belarus and Ukraine.
- Liberty Consumer (formerly included in Asset Management)* - Principally holding private equity investments in several non-core business enterprises, such as winery, fitness centre, travel agencies, outdoor or indoor advertising company, regional car dealership, hotels and restaurants management chain and other smaller investments, all designated for disposal.
- Other (formerly included in Corporate Centre)* - Comprising JSC Galt & Taggart Holding Georgia, a shell company, principally holding investments in subsidiaries of the Group on behalf of the Group.

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 consolidated financial statements. Income taxes are managed on a Group basis and are not allocated to operating segments.

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

(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 2012 (unaudited):

	Strategic			Synergistic			Non-Core			Inter-segment transactions and balances	Total	
	Corporate banking	Retail banking	Wealth management	Corporate center	Insurance	Healthcare	Affordable Housing	BG Capital	BNB*			Liberty Consumer
Revenue												
External operating income:												
Net interest income (expense)	43,179	83,156	6,550	-	145	(676)	75	122	5,494	(382)	-	137,663
Net fees and commission income (expense)	14,887	25,197	230	(458)	-	-	-	183	1,494	-	-	41,533
Net insurance revenue	-	-	-	-	11,957	-	-	-	-	-	-	11,957
Net healthcare revenue	-	-	-	-	-	9,196	-	-	-	-	-	9,196
Net gains (losses) from foreign currencies	16,035	6,228	380	(10)	152	(40)	(107)	(102)	3,761	(106)	-	26,191
Other external revenues	1,562	3,025	40	-	125	796	630	204	93	5,788	182	12,445
Operating income (expense) from other segments	312	1,342	-	-	(578)	812	351	215	-	-	(2,454)	-
Total operating income (expense)	75,975	118,948	7,200	(468)	11,801	10,088	949	622	10,842	5,300	182	238,985
Impairment charge (reversal) on interest earning assets	1,380	11,032	(5)	-	-	-	-	-	1,265	-	-	13,242
Results												
Income (loss) before income tax benefit	44,412	48,620	5,151	(1,107)	3,086	3,783	(912)	(34)	4,628	(4,239)	(237)	103,581
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	(17,542)
Profit for the period												86,039
Assets and liabilities												
Segment assets	2,349,737	2,073,747	51,563	29,688	161,857	146,460	90,646	17,636	151,825	40,371	117	4,911,118
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	23,889
Total assets	2,349,737	2,073,747	51,563	29,688	161,857	146,460	90,646	17,636	151,825	40,371	117	4,935,007
Segment liabilities	1,969,200	1,190,829	528,882	24,309	132,713	93,161	51,949	11,718	108,820	12,794	2	3,921,848
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	55,765
Total liabilities	1,969,200	1,190,829	528,882	24,309	132,713	93,161	51,949	11,718	108,820	12,794	2	3,977,613
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	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	-	-	-	-	-	-	-	-	-	2,867	-	2,867
Share of profit of associates	-	-	-	-	-	-	-	-	-	(143)	-	(143)

* JSC Belarusky Narodny Bank (BNB).

(Thousands of Georgian Lari)

4. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments for the six months ended 30 June 2011 and as at 31 December 2011:

Revenue	Strategic			Synergistic				Non-Core			Inter - segment transactions and balances	Total
	Corporate banking	Retail banking	Wealth management	Corporate center	Insurance	Healthcare	Affordable Housing	BG Capital	BNB & BGB*	Liberty Consumer		
External operating income:												
Net interest income (expense)	38,205	68,474	2,710	-	613	(20)	-	86	6,426	(636)	-	115,858
Net fees and commission income	9,210	22,520	305	-	33	-	-	1,493	409	-	-	33,970
Net insurance revenue	-	-	-	-	9,096	-	-	-	-	-	-	9,096
Net healthcare revenue	-	-	-	-	-	990	-	-	-	-	-	990
Net gains (losses) from foreign currencies	15,799	4,933	175	-	(592)	-	47	(121)	23,357	(187)	-	43,411
Other external (expenses) revenues	1,487	1,920	52	-	679	424	698	338	562	3,923	-	10,083
Operating income/(expense) from other segments	4,797	727	-	-	(41)	1,440	393	142	(206)	-	(90)	(7,162)
Total operating income (expense)	69,498	98,574	3,242	-	9,788	2,834	1,138	1,938	30,548	3,100	(90)	213,408
Impairment charge (reversal) on interest earning assets	13,160	(4,516)	(732)	-	-	-	-	-	3,617	-	-	11,502
Results												
Income (loss) before income tax benefit	34,466	53,579	2,102	(13,000)	2,243	586	476	(679)	6,079	(2,871)	(90)	82,918
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	(6,926)
Net loss from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	(12,247)
Profit for the period												63,745
Assets and liabilities												
Segment assets	2,215,730	2,164,177	37,646	3,183	81,056	74,604	68,268	18,034	93,289	43,181	536	4,641,922
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	23,339
Total assets	1,996,036	1,268,023	451,542	-	62,768	49,805	32,242	46,704	54,875	11,022	7	4,665,261
Segment liabilities	-	-	-	-	-	-	-	-	-	-	-	3,815,242
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	37,416
Total liabilities												3,852,658
Other segment information												
Property and equipment	9,167	15,390	289	-	368	4,013	2,639	32	721	697	-	33,316
Intangible assets	1,842	3,103	58	-	7	2	14	12	115	2	-	5,155
Capital expenditure	11,009	18,493	347	-	375	4,015	2,653	44	836	699	-	38,471
Depreciation	3,522	6,283	110	-	154	207	25	73	347	508	-	11,229
Amortization	509	1,099	16	-	14	-	-	8	66	-	-	1,712
Impairment	-	-	-	13,000	-	-	-	-	-	-	-	13,000
Investments in associates	-	-	-	-	-	-	-	-	-	-	-	3,014
Share of profit of associates	-	-	-	-	-	-	-	-	-	-	-	(251)
* JSC Belarusky Narodny Bank (BNB) and JSC BG BANK (BGB).												

(Thousands of Georgian Lari)

4. Segment Information (continued)

Geographic information

The Group operates in three main geographical markets: (a) Georgia, (b) Belarus and (c) United Kingdom. The following table shows the distribution of the Group's external income, total assets and capital expenditure allocated based on the location of the Group's assets, for the six months ended 30 June 2012 (unaudited):

	<i>Georgia</i> 30 June 2012	<i>Belarus</i> 30 June 2012	<i>United Kingdom</i> 30 June 2012	<i>Total</i> 30 June 2012
External income				
Net interest income	132,169	5,494	–	137,663
Net fee and commission income (expense)	40,497	1,494	(458)	41,533
Net insurance revenue	11,957	–	–	11,957
Net healthcare revenue	9,196	–	–	9,196
Net foreign currency gains (losses)	22,440	3,761	(10)	26,191
Other non-interest (loss) income	12,352	93	–	12,445
Total external income	228,611	10,842	(468)	238,985
Total assets	4,750,491	158,012	26,504	4,935,007
Capital expenditures	28,774	502	–	29,276

The following table shows the distribution of the Group's external income and capital expenditure, for the six months ended 30 June 2011 and total assets as at 31 December 2011, allocated based on the location of the Group's assets:

	<i>Georgia</i> 30 June 2011	<i>Ukraine and Cyprus</i> 30 June 2011	<i>Belarus</i> 30 June 2011	<i>Total</i> 30 June 2011
External income				
Net interest income	109,437	447	5,974	115,858
Net fee and commission income	32,514	1,188	268	33,970
Net insurance revenue	9,096	–	–	9,096
Net healthcare revenue	990	–	–	990
Net foreign currency gains	20,175	85	23,151	43,411
Other non-interest income	8,768	664	651	10,083
Total external income	180,980	2,384	30,044	213,408
Total assets	4,571,776	–	93,485	4,665,261
Capital expenditures	37,594	41	836	38,471

(Thousands of Georgian Lari)

5. Business Combinations

Acquisitions in 2012

JSC Insurance Company Imedi L International

On 1 May 2012 JSC Insurance Company Aldagi BCI acquired 34% stake in JSC Insurance Company Imedi L International, an insurance company operating in Georgia, from European Bank for Reconstruction and Development (EBRD). On 2 May 2012 JSC Insurance Company Aldagi BCI fully acquired Meta LLC, which owned 51% of JSC Insurance Company Imedi L International. On 21 May 2012 JSC Insurance Company Aldagi BCI acquired Imedi L Holding LLC, which owned 9.6% of JSC Insurance Company Imedi L International shares, thus bringing the total ownership stake in JSC Insurance Company Imedi L International to 94.6%. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from JSC Insurance Company Imedi L International as at the date of acquisition was:

	<i>Provisional fair value recognized on acquisition</i>
Cash and cash equivalents	628
Amounts due from credit institutions	7,042
Insurance premiums receivable ¹	31,841
Reinsurance assets	838
Accounts receivable ²	2,094
Property and equipment	54,498
Intangible assets	113
Current income tax assets	269
Deferred income tax assets	1,066
Prepayments	1,008
Other assets	4,278
	103,675
Amounts owed to credit institutions	6,482
Insurance contracts liabilities	36,993
Other insurance liabilities	1,746
Pension benefit obligations	46
Deferred income tax liabilities	1,172
Accruals and deferred income	2,187
Other liabilities	18,700
	67,326
Total identifiable net assets	36,349
Share in fair value of net assets acquired (94.6%)	34,386
Negative goodwill arising on business combination	(15)
Consideration given³	34,371

The net cash outflow on acquisition was as follows:

	<i>2012</i>
Cash paid	8,574
Cash acquired with the subsidiary	(628)
Net cash outflow	7,946

¹ The fair value of the insurance premium receivables amounts to GEL 31,841. The gross amount of receivables is GEL 37,703. None of the premium receivables have been impaired and it is expected that the full contractual amounts can be collected.

² The fair value of the accounts receivables amounts to GEL 2,094. The gross amount of receivables is GEL 2,320. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

³ Consideration comprised of GEL 25,422 pre-existing loan to JSC Insurance Company Imedi L International less GEL 28 pre-existing deposit, cash payments of GEL 8,574 and deferred payments of GEL 403.

(Thousands of Georgian Lari)

5. Business Combinations (continued)

Acquisitions in 2012 (continued)

Since the acquisition date, the Group recorded GEL 9,222 and GEL 898 of revenue and profit, respectively. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 29,050 and GEL 3,952 of revenue and profit respectively.

Since JSC Insurance Company Imedi L International was acquired close to the reporting date, the Group had limited time to review, analyze and perform valuation of the respective net assets as well as amount of goodwill. Therefore the net assets as well as the amount of goodwill presented above are estimated provisionally as at the reporting date. The Group continues thorough full examination of these net assets and if identified proper adjustments will be made to the net assets and amount of the goodwill during the twelve month period from the acquisition date, as allowed by "Business Combinations" (IFRS 3). However, as at the reporting date management believes that materially all factors of the business combination have been captured and the estimates are materially correct.

6. Cash and Cash Equivalents

	<i>30 June 2012</i> <i>(unaudited)</i>	<i>31 December</i> <i>2011</i>
Cash on hand	108,258	163,001
Current accounts with central banks, excluding obligatory reserves	102,644	54,830
Current accounts with other credit institutions	69,060	304,910
Time deposits with credit institutions up to 90 days	95,035	105,990
Cash and cash equivalents	374,997	628,731

As at 30 June 2012 GEL 120,390 (31 December 2011: GEL 304,231) was placed on current and time deposit accounts with internationally recognized OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 2.0% interest per annum on these deposits (31 December 2011: 2.2%).

7. Amounts Due from Credit Institutions

	<i>30 June 2012</i> <i>(unaudited)</i>	<i>31 December</i> <i>2011</i>
Obligatory reserves with central banks	309,971	270,335
Time deposits with maturity of more than 90 days	25,000	14,318
Inter-bank loans and receivables	7,174	4,877
Amounts due from credit institutions	342,145	289,530

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 earned up to 1% annual interest on obligatory reserves with NBG during the six months ended 30 June 2012 and year ended 31 December 2011.

As at 31 December 2011 GEL 277 was placed on current accounts and inter-bank time deposits with one internationally recognised OECD bank. Those amounts were pledged to the counterparty bank as security for open commitments.

As at 30 June 2012 inter-bank loans and receivables include GEL 4,389 (31 December 2011: GEL 4,176) placed with an Azerbaijani bank.

(Thousands of Georgian Lari)

8. Investment Securities Available-for-sale

Available-for-sale securities comprise:

	<i>30 June 2012</i> <i>(unaudited)</i>	<i>31 December</i> <i>2011</i>
Certificates of deposit of central banks	199,081	199,142
Ministry of Finance treasury bonds	182,197	120,255
Ministry of Finance treasury bills	24,938	88,657
Corporate shares	7,363	11,501
Corporate bonds	1,004	21
Available-for-sale securities	414,583	419,576

Corporate shares as at 30 June 2012 include the remaining 19.4% investment in PJSC Bank Pershyi (formerly known as JSC BG Bank) of GEL 3,837 (31 December 2011: 3,837), investments in a chain of pharmacy stores of GEL 980 (31 December 2011: 2,776), a Georgian chain store retailer of GEL 821 (31 December 2011: GEL 3,146) and a real estate company of GEL 1,145 (31 December 2011: GEL 1,145).

Nominal interest rates and maturities, in years, of these securities are as follows:

	<i>30 June 2012</i> <i>(unaudited)</i>		<i>31 December 2011</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Certificates of deposit of central banks	6.79	1	8.04	1
Ministry of Finance treasury bonds	11.49	1-2	12.76	1-2
Ministry of Finance treasury bills	8.72	1	9.69	1
Corporate bonds	9.98	1-3	15.00	1

9. Loans to Customers

	<i>30 June 2012</i> <i>(unaudited)</i>	<i>31 December</i> <i>2011</i>
Commercial loans	1,589,653	1,363,058
Consumer loans	561,678	516,733
Residential mortgage loans	381,620	390,997
Micro and SME loans	355,364	318,566
Gold – pawn loans	83,250	78,785
Loans to customers, gross	2,971,565	2,668,139
Less – Allowance for loan impairment	(114,686)	(114,697)
Loans to customers, net	2,856,879	2,553,442

(Thousands of Georgian Lari)

9. Loans to Customers (continued)

Concentration of loans to customers

As at 30 June 2012 concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 462,220 accounting for 16% of the gross loan portfolio of the Group (31 December 2011: GEL 379,263 and 14% respectively). An allowance of GEL 6,559 (31 December 2011: GEL 5,701) was established against these loans.

As at 30 June 2012 and 31 December 2011 loans are principally issued within Georgia, and their distribution by industry sector is as follows:

	<i>30 June 2012</i> <i>(unaudited)</i>	<i>31 December</i> <i>2011</i>
Individuals	1,178,964	1,132,740
Trade and services	1,038,040	972,290
Mining	318,563	122,771
Construction and development	230,264	228,412
Transport and communication	77,239	83,289
Energy	51,356	65,360
Agriculture	15,813	8,709
Others	61,326	54,568
Loans to customers, gross	2,971,565	2,668,139
Less – allowance for loan impairment	(114,686)	(114,697)
Loans to customers, net	2,856,879	2,553,442

Loans have been extended to the following types of customers:

	<i>30 June 2012</i> <i>(unaudited)</i>	<i>31 December</i> <i>2011</i>
Private companies	1,744,818	1,492,124
Individuals	1,178,964	1,132,740
State-owned entities	47,783	43,275
Loans to customers, gross	2,971,565	2,668,139
Less – allowance for loan impairment	(114,686)	(114,697)
Loans to customers, net	2,856,879	2,553,442

10. Investment Properties

	<i>2012</i> <i>(unaudited)</i>	<i>2011</i>
At 1 January	101,686	113,496
Additions*	35,007	2,305
Disposals	(10,205)	(400)
Disposals through sale of subsidiary	–	(13,654)
Transfers from (to) property and equipment and other assets	12,151	(2,394)
At 30 June	138,639	99,353

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

Investment properties are stated at fair value, which has been determined based on the valuation performed by a professional valuation company, an accredited independent appraiser, as at 31 December 2011. The appraiser is an industry specialist in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards Committee standards.

In the view of the management, no significant changes in the value of investment properties took place during the six months ended 30 June 2012.

(Thousands of Georgian Lari)

10. Investment Properties (continued)

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

	<i>30 June 2012</i> <i>(unaudited)</i>	<i>30 June 2011</i>
Rental income	1,315	1,371
Direct operating expenses	(80)	(86)

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

11. Amounts Due to Customers

The amounts due to customers include the following:

	<i>30 June 2012</i> <i>(unaudited)</i>	<i>31 December</i> <i>2011</i>
Current accounts	1,473,515	1,645,507
Time deposits	1,269,086	908,577
Promissory notes issued	103,662	181,138
Amounts due to customers	2,846,263	2,735,222
Held as security against letters of credit and guarantees (Note 14)	15,095	24,353

As at 30 June 2012 and 31 December 2011, 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 7 months (31 December 2011: 5 months).

At 30 June 2012, GEL 630,198 (22%) was due to the 10 largest customers (31 December 2011: GEL 580,710 (21%)).

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

	<i>30 June 2012</i> <i>(unaudited)</i>	<i>31 December</i> <i>2011</i>
Private enterprises	1,469,298	1,290,908
Individuals	1,125,671	1,056,852
State and budget organizations	251,294	387,462
Amounts due to customers	2,846,263	2,735,222

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

	<i>30 June 2012</i> <i>(unaudited)</i>	<i>31 December</i> <i>2011</i>
Individuals	1,125,671	1,056,852
Trade and services	634,847	655,551
Energy	489,015	239,797
State and budget organizations	251,294	387,462
Construction and development	161,575	175,906
Mining and processing	58,807	131,734
Transport and communication	23,597	36,871
Agriculture	4,381	14,844
Other	97,076	36,205
Amounts due to customers	2,846,263	2,735,222

(Thousands of Georgian Lari)

12. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	<i>30 June 2012</i> <i>(unaudited)</i>	<i>31 December</i> <i>2011</i>
Borrowings from international credit institutions	667,693	863,004
Time deposits and inter-bank loans	198,784	42,837
Sub-total	866,477	905,841
Correspondent accounts	9,452	15,331
Amounts due to credit institutions	875,929	921,172

During six months of 2012 the Group received short-term funds from Georgian banks in different currencies. As at 30 June 2012 the Group had an equivalent of GEL 7,716 (31 December 2011: GEL 2,548) in foreign currencies received as deposits from Georgian banks. During six months of 2012 the Group paid up to 4.0% interest on these deposits (2011: 4.0%).

Borrowings from international credit institutions, time deposits and inter-bank loans were comprised of:

<u>As at 30 June 2012</u>				<i>Facility</i> <i>amount in</i> <i>original</i> <i>currency</i>	<i>Outstanding</i> <i>Balance as at</i> <i>30 June</i> <i>2012</i> <i>in GEL (*)</i>
<i>Credit institution</i>	<i>Grant</i> <i>date</i>	<i>Contractual</i> <i>maturity</i>	<i>Currency</i>		
Asian Development Bank	1-Dec-10	1-Dec-15	USD	50,000	71,643
National Bank of Georgia	28-Jun-12	5-Jul-12	GEL	63,500	63,522
Merrill Lynch International **	17-Aug-07	17-Aug-17	USD	35,000	60,591
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	30,000	48,709
Netherland Development Finance Company **	18-Jul-08	15-Oct-18	USD	30,000	48,666
European Bank for Reconstructions and Development	13-Jan-09	15-Jan-14	USD	50,000	47,366
International Finance Corporation	13-Jan-09	15-Jul-13	USD	50,000	41,657
International Financial Corporation**	13-Jan-09	15-Jan-19	USD	23,956	40,668
European Bank for Reconstructions and Development**	13-Jan-09	15-Jan-19	USD	23,956	40,630
Overseas Private Investment Corporation	23-Dec-08	20-Dec-18	USD	29,000	34,148
European Bank for Reconstructions and Development	12-Nov-10	5-Dec-15	USD	20,000	32,847
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	20,000	32,473
Semper Augustos B.V. **	31-Oct-07	30-Oct-17	USD	15,000	25,172
European Bank for Reconstructions and Development	8-Dec-11	8-Dec-16	GEL	24,020	23,701
JSC TBC Bank	21-Feb-12	1-Feb-22	USD	12,500	21,124
Overseas Private Investment Corporation **	23-Dec-08	20-Dec-18	USD	10,000	16,252
JSC PrivatBank	21-Jun-12	5-Jul-12	USD	14,500	14,520
ING Bank N.V.	9-Nov-11	1-Jan-20	USD	11,906	13,833
Overseas Private Investment Corporation	31-Jan-12	31-Jan-22	USD	5,000	8,262
The Bank of Nova Scotia	30-Mar-12	26-Sep-12	USD	5,000	8,257
Netherland Development Finance Company	2-Apr-12	15-Mar-17	USD	20,000	8,253
European Bank for Reconstructions and Development	13-Jun-11	5-Jul-16	USD	10,000	8,234
European Bank for Reconstructions and Development	20-Jun-11	25-Jul-16	USD	20,000	8,115
JSC TBC Bank	21-Feb-12	1-Feb-22	USD	4,000	7,415
Netherland Development Finance Company	22-Jan-07	15-Mar-14	USD	12,500	7,305
International Finance Corporation	24-Jun-10	15-Dec-14	USD	5,000	6,872
CitiBank, N.A.	19-Apr-12	12-Apr-13	USD	3,776	6,272
Baltikums Bank AS	14-Jun-12	14-Sep-12	EUR	3,000	6,219
JSC Procredit Bank	29-Jun-12	2-Jul-12	GEL	6,000	6,001
World Business Capital	17-Feb-06	25-Dec-15	USD	10,000	5,857
JSC Kor Standard Bank	28-Jun-12	5-Jul-12	GEL	5,000	5,002
Balances less than GEL 5,000	various	various	various	various	96,891
Total					866,477

(Thousands of Georgian Lari)

12. Amounts Due to Credit Institutions (continued)

<u>As at 31 December 2011</u>					<i>Outstanding Balance as at 31 December 2011 in GEL (*)</i>
<i>Credit institution</i>	<i>Grant date</i>	<i>Contractual maturity</i>	<i>Currency</i>	<i>Facility amount in original currency</i>	
BG Finance B.V.	8-Feb-07	8-Feb-12	USD	55,507	95,954
Asian Development Bank	1-Dec-10	1-Dec-15	USD	50,000	83,101
Merrill Lynch International **	17-Aug-07	17-Aug-17	USD	35,000	60,654
European Bank for Reconstructions and Development	13-Jan-09	15-Jan-14	USD	50,000	59,939
International Finance Corporation	13-Jan-09	15-Jul-13	USD	50,000	56,190
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	30,000	49,862
Netherland Development Finance Company **	18-Jul-08	15-Oct-18	USD	30,000	49,690
European Bank for Reconstructions and Development **	13-Jan-09	15-Jan-19	USD	26,044	41,912
International Finance Corporation **	13-Jan-09	15-Jan-19	USD	26,044	41,907
International Financial Corporation **	13-Jan-09	15-Jan-19	USD	23,956	40,832
European Bank for Reconstructions and Development**	13-Jan-09	15-Jan-19	USD	23,956	40,779
Overseas Private Investment Corporation	23-Dec-08	20-Dec-18	USD	29,000	37,319
European Bank for Reconstructions and Development	12-Nov-10	5-Dec-15	USD	20,000	33,328
European Fund for Southeast Europe	15-Dec-10	15-Jun-18	USD	20,000	33,243
Semper Augustos B.V. **	31-Oct-07	30-Oct-17	USD	15,000	25,565
European Bank for Reconstructions and Development	8-Dec-11	8-Dec-16	GEL	24,020	23,927
Overseas Private Investment Corporation **	23-Dec-08	20-Dec-18	USD	10,000	16,491
Netherland Development Finance Company	22-Jan-07	15-Mar-14	USD	12,500	9,200
JSC HSBC Bank Georgia	30-Dec-11	5-Jan-12	GEL	9,000	9,001
International Finance Corporation	21-Oct-10	15-Dec-14	USD	5,000	8,339
ING Bank N.V.	9-Nov-11	1-Jan-20	USD	11,906	6,961
World Business Capital	17-Feb-06	25-Dec-15	USD	10,000	6,740
Baltikums Bank AS	12-Dec-11	12-Jan-12	EUR	3,000	6,493
European Bank for Reconstructions and Development	20-Jun-11	25-Jul-16	USD	20,000	6,334
World Business Capital	29-May-07	25-Mar-17	USD	3,130	5,228
JSC Procredit Bank	29-Dec-11	31-Jan-12	GEL	5,000	5,001
Balances less than GEL 5,000	various	various	various	various	51,851
Total					905,841

* - includes accrued interest

** - total subordinated loans comprised GEL 235,701 as at 30 June 2012 (31 December 2011: GEL 317,830)

Agreements for significant borrowings contain certain covenants requiring the Group to adhere to different limits for capital adequacy, liquidity, currency position, credit exposures, leverage and others. At 30 June 2012 and 31 December 2011, the Group complied with all the financial covenants of the loans received from credit institutions.

The borrowings received on 13 January 2009 from European Bank for Reconstructions and Development and International Financial Corporation, comprising USD 26,044 thousand each, had an equity conversion feature valid for 5 years from the loan granting date (convertibility period). On 24 February 2012 EBRD and IFC utilized the equity conversion feature and converted largest portion of their respective loans to the Bank into Bank shares (the "Loan Conversion"). Total nominal (contractual) amount of US\$ 49,903,083 was converted into 3,635,006 newly issued ordinary shares of the Bank. Carrying value of the remaining outstanding debt for these loans is included in "Balances less than GEL 5,000" category.

Further, in accordance with the terms and conditions of the Loan Participation Notes due to BG Finance B.V. in 2012 (ISIN:XS0283756624; Common Code:028375662), on 8 February 2012 (the "Maturity Date") the Notes were redeemed in full. Notes with a par value of US\$144, 493,000 had been repurchased by the Bank prior to the Maturity Date and the remaining Notes (with a par value of US\$55,507,000) were repaid at the Maturity Date.

(Thousands of Georgian Lari)

13. Equity

Share capital

As at 30 June 2012, issued share capital comprised 35,909,383 common shares, of which 35,909,383 were fully paid (31 December 2011: 43,308,125 authorised common shares, of which 32,877,860 were issued and fully paid). Each share has a nominal value of one (1) British Penny (31 December 2011: one (1) Georgian Lari). Shares issued and outstanding as at 30 June 2012 are described below:

	<i>Number of shares Ordinary</i>	<i>Amount of shares Ordinary</i>
31 December 2010	31,344,860	31,345
Increase in share capital arising from share-based payments	15,462	15
30 June 2011	31,360,322	31,360
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

* 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 in 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.

(Thousands of Georgian Lari)

13. Equity (continued)

Treasury shares

Treasury shares of GEL 66 as at 30 June 2012 comprise the Group's shares owned by the Group and its subsidiaries (31 December 2011: GEL 1,208). Purchases and sales of treasury shares were conducted by the Group's subsidiaries in the open market: - the Bank, JSC BG Capital, BG Trading LLC, Galt and Taggart Holdings Limited LLC, GC Holdings LLC and JSC Insurance Company Aldagi BCI.

Treasury shares amounting to GEL 1,938 as at 31 December 2011 were kept by the Group's custodian – Abacus Corporate Trustee Limited, acting as the trustee of the Group. Starting 20 February 2012, all shares of the Bank kept by Abacus Corporate Trustee Limited were converted into the Group's shares.

Dividends

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.

On 15 June 2011, annual general meeting of shareholders' of JSC Bank of Georgia declared 2011 dividends comprising Georgian Lari 0.3 per share, based on 2010 audited financial results. The declaration is effective from 1 July 2011. Payment of the total GEL 9,169 dividends was received by shareholders on 18 July 2011.

Nature and purpose of other reserves

Revaluation reserve for property and equipment and investment properties

The revaluation reserve for property and equipment and investment properties is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. The reserve is also used to record increases in the fair value of those investment properties that were reclassified from land or building in prior years and for which the first appreciation was to be recorded in equity.

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

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

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. Movement of foreign currency translation reserve was as follows:

	<i>Foreign currency translation reserve</i>
At 31 December 2010	(24,010)
Loss on devaluation of open currency position exposure through investments in subsidiaries	(27,737)
Loss from translation of non-monetary items from functional currency into presentation currency	(14,313)
Loss recognized from currency translation differences from continuing operations, recognised in other comprehensive income	(42,050)
Foreign currency gain from discontinued operations (disposal of subsidiary)	26,130
At 30 June 2011	(39,930)
At 31 December 2011	(50,373)
Loss from revaluation of open currency position exposure through investments in subsidiaries	(182)
Loss from translation of non-monetary items from functional currency into presentation currency	(4,623)
Loss recognized from currency translation differences from continuing operations, recognised in other comprehensive income	(4,805)
At 30 June 2012 (unaudited)	(55,178)

(Thousands of Georgian Lari)

13. Equity (continued)

Nature and purpose of other reserves (continued)

Gain (loss) from revaluation of open currency position exposure through investments in subsidiaries is a result of difference between the historical cost of the amount of investment in foreign subsidiary and the total outstanding shareholders equity of the same foreign subsidiary translated into the presentation currency (Georgian Lari) at the exchange rate effective as at the reporting date.

For the six months ended 30 June 2012 gain from revaluation of open foreign currency positions mostly comprise gains received from appreciation of Belarusian Ruble denominated total shareholders' equity of JSC Belarusky Narodny Bank against Georgian Lari and Georgian Lari denominated total shareholders' equity of JSC Bank of Georgia against British Pound Sterling. For the six months ended 30 June 2011 the loss from devaluation of open foreign currency positions mostly comprises losses incurred on depreciation of Belarusian Ruble denominated total shareholders' equity of JSC Belarusky Narodny Bank against Georgian Lari.

Foreign currency gain from disposal of subsidiary (JSC BG Bank) comprises a reclassification of accumulated foreign currency translation differences incurred during prior years, from other comprehensive income statement to the income statement as prescribed by IAS 27.34.

Movements in other reserves during six months of 2012 and 2011 are presented in the statements of comprehensive income.

Earnings per share

	<i>For the six months ended</i>	
	<i>30 June 2012</i>	<i>30 June 2011</i>
Basic earnings per share		
Profit for the period attributable to ordinary shareholders of the Group	84,212	63,645
Profit for the period from continuing operations attributable to ordinary shareholders of the Group	84,212	75,892
Weighted average number of ordinary shares outstanding during the period	32,807,562	29,934,352
Basic earnings per share	2.5668	2.1262
Basic earnings per share from continuing operations	2.5668	2.5353
Dilution effect		
Interest expenses on convertible debt instruments, net of tax	1,116	3,768
Weighted average number of dilutive potential ordinary shares outstanding during the period	1,058,546	3,474,614
Diluted earnings per share		
Profit for the period attributable to ordinary shareholders of the Group	85,328	67,413
Profit for the period from continuing operations attributable to ordinary shareholders of the Group	85,328	79,660
Weighted average number of diluted ordinary shares outstanding during the period	33,866,108	33,408,966
Diluted earnings per share	2.5196	2.0178
Diluted earnings per share from continuing operations	2.5196	2.3844

During the six month periods ended 30 June 2012 and 30 June 2011 dilutive potential ordinary shares comprised of convertible loans granted by EBRD and IFC.

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 from continuing operations. However, it also reduced the Group's interest expense on these debt instruments and increased the total profit attributable to ordinary shareholders of the Group

(Thousands of Georgian Lari)

14. 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 2012 and 31 December 2011 the Group's financial commitments and contingencies comprised the following:

	<i>30 June 2012</i> <i>(unaudited)</i>	<i>31 December</i> <i>2011</i>
Credit-related commitments		
Guarantees issued	514,443	463,393
Undrawn loan facilities	131,939	120,339
Letters of credit	91,869	70,224
	738,251	653,956
Operating lease commitments		
Not later than 1 year	5,676	5,040
Later than 1 year but not later than 5 years	11,106	9,979
Later than 5 years	2,664	3,122
	19,446	18,141
Capital expenditure commitments	38,059	47,918
Less – Cash held as security against letters of credit and guarantees (Note 11)	(15,095)	(24,353)
Less – Receivables related to letters of credit	–	(515)
Less – Provisions	(459)	(386)
Financial commitments and contingencies, net	780,202	694,761

As at 30 June 2012 the capital expenditure represented the commitment for purchase of property and capital repairs of GEL 30,690 and software and other intangible assets of GEL 7,369. As at 31 December 2011 the capital expenditure represented the commitment for purchase of property and capital repairs of GEL 41,119 and software and other intangible assets of GEL 6,799.

(Thousands of Georgian Lari)

15. Net Fee and Commission Income

	<i>For the six months ended</i>	
	<i>30 June</i>	
	<i>2012</i>	<i>2011</i>
	<i>(unaudited)</i>	
Settlements operations	32,139	28,630
Guarantees and letters of credit	13,172	7,624
Cash operations	4,319	4,367
Currency conversion operations	719	880
Brokerage service fees	404	459
Advisory	–	1,175
Other	724	501
Fee and commission income	51,477	43,636
Settlements operations	(7,254)	(5,981)
Guarantees and letters of credit	(1,533)	(682)
Cash operations	(298)	(1,628)
Insurance brokerage service fees	(388)	(355)
Currency conversion operations	(42)	(634)
Other	(429)	(386)
Fee and commission expense	(9,944)	(9,666)
Net fee and commission income	41,533	33,970

16. Other Operating Income

	<i>For the six months ended</i>	
	<i>30 June</i>	
	<i>2012</i>	<i>2011</i>
	<i>(unaudited)</i>	
Revenues from wine production and distribution	5,563	4,182
Income from operating lease	1,962	1,965
Income from other services rendered*	1,378	1,399
Income from sale of property**	1,099	591
Income from pension fund	300	221
Dividends received	166	133
Other	1,024	860
Fee and commission income	11,492	9,351

* Mostly comprised of revenues from servicing public transportation cards, tour agency, fitness centre and other services.

** Includes income from sale of investment property and property and equipment.

(Thousands of Georgian Lari)

17. Fair Values of Financial Instruments

Financial instruments recorded at fair value

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

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

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

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total 30 June 2012 (unaudited)</i>
<i>Financial assets</i>				
Investment securities – available-for-sale	1,229	411,068	2,286	414,583
Other assets – derivative financial assets	1,781	35,969	–	37,750
Other assets – trading securities owned	784	–	–	784
	3,794	447,037	2,286	453,117
<i>Financial liabilities</i>				
Other liabilities – derivative financial liabilities	1,088	7,167	–	8,255
	1,088	7,167	–	8,255
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total 31 December 2011</i>
<i>Financial assets</i>				
Investment securities – available-for-sale	346	415,196	4,034	419,576
Other assets – derivative financial assets	63	36,760	–	36,823
Other assets – trading securities owned	1,115	–	–	1,115
	1,524	451,956	4,034	457,514
<i>Financial liabilities</i>				
Other liabilities – derivative financial liabilities	5,925	9,931	–	15,856
	5,925	9,931	–	15,856

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.

(Thousands of Georgian Lari)

17. Fair Values of Financial Instruments (continued)

Financial instruments recorded at fair value (continued)

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:

	<i>At 1 January 2010</i>	<i>Sale of AFS securities</i>	<i>At 31 December 2011</i>	<i>Sale of AFS securities</i>	<i>At 30 June 2012 (unaudited)</i>
Financial assets					
Investment securities – available-for-sale	5,409	(1,375)	4,034	(1,748)	2,286
Total level 3 financial assets	5,409	(1,375)	4,034	(1,748)	2,286
Total net level 3 financial assets / (liabilities)	5,409	(1,375)	4,034	(1,748)	2,286

No financial instruments were transferred during the six months ended 30 June 2012 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 2012 comprised nil.

No financial instruments were transferred during 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 measured at fair value of changes to key assumptions

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

	<i>Carrying amount</i>	<i>Effect of reasonably possible alternative assumptions</i>	<i>Carrying amount</i>	<i>Effect of reasonably possible alternative assumptions</i>
	<i>30 June 2012 (unaudited)</i>		<i>31 December 2011</i>	
Financial assets				
Investment securities – available-for-sale	2,286	+/- 344	4,034	+/- 607

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable model inputs as follows:

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

(Thousands of Georgian Lari)

17. Fair Values of Financial Instruments (continued)

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

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

	<i>Carrying value 30 June 2012 (unaudited)</i>	<i>Fair value 30 June 2012 (unaudited)</i>	<i>Unrecognised gain (loss) 30 June 2012 (unaudited)</i>	<i>Carrying value 31 December 2011</i>	<i>Fair value 31 December 2011</i>	<i>Unrecognised loss 31 December 2011</i>
Financial assets						
Cash and cash equivalents	374,997	374,997	–	628,731	628,731	–
Amounts due from credit institutions	342,145	342,145	–	289,530	289,530	–
Loans to customers	2,856,879	2,849,093	(7,786)	2,553,442	2,546,648	(6,794)
Finance lease receivables	66,261	66,261	–	62,919	62,919	–
Financial liabilities						
Amounts due to customers	2,846,263	2,876,143	(29,880)	2,735,222	2,758,210	(22,988)
Amounts due to credit institutions	875,929	875,929	–	921,172	921,172	–
Total unrecognised change in unrealised fair value			(37,666)			(29,782)

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than 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 bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

(Thousands of Georgian Lari)

18. 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 2012 (unaudited)									
	On Demand	0-1 Months	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	5-10 Years	>10 Years	Total
Financial assets										
Cash and cash equivalents	245,261	129,736	-	-	-	-	-	-	-	374,997
Amounts due from credit institutions	311,093	3,198	2,434	7,755	10,175	-	2,095	4,380	1,015	342,145
Investment securities available-for-sale	393,692	4,918	2,431	5,060	3,189	3,702	1,466	125	-	414,583
Loans to customers	714	321,014	251,094	303,377	560,525	886,262	339,768	183,523	10,602	2,856,879
Finance lease receivables	20	2,758	3,640	4,995	8,919	23,256	12,630	10,043	-	66,261
Total	950,780	461,624	259,599	321,187	582,808	913,220	355,959	198,071	11,617	4,054,865
Financial liabilities										
Amounts due to customers	1,518,787	145,251	228,489	270,598	363,573	273,126	39,350	2,786	4,303	2,846,263
Amounts due to credit institutions	10,667	137,463	41,411	38,104	104,521	206,789	125,749	211,225	-	875,929
Total	1,529,454	282,714	269,900	308,702	468,094	479,915	165,099	214,011	4,303	3,722,192
GAP	(578,674)	178,910	(10,301)	12,485	114,714	433,305	190,860	(15,940)	7,314	332,673
Accumulated GAP	(578,674)	(399,764)	(410,065)	(397,580)	(282,866)	150,439	341,299	325,359	332,673	
31 December 2011										
	On Demand	0-1 Months	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	5-10 Years	>10 Years	Total
Financial assets										
Cash and cash equivalents	526,706	100,621	1,404	-	-	-	-	-	-	628,731
Amounts due from credit institutions	268,100	-	277	858	8,213	7,191	-	4,176	715	289,530
Investment securities available-for-sale	23,607	18,017	128,792	114,167	55,596	65,893	13,500	-	4	419,576
Loans to customers	2,245	268,452	229,762	258,886	471,732	723,420	345,412	240,954	12,579	2,553,442
Finance lease receivables	218	2,281	2,915	3,990	7,363	20,871	12,667	12,614	-	62,919
Total	820,876	389,371	363,150	377,901	542,904	817,375	371,579	257,744	13,298	3,954,198
Financial liabilities										
Amounts due to customers	1,520,758	259,633	142,252	267,389	346,729	185,878	6,416	2,550	3,617	2,735,222
Amounts due to credit institutions	26,936	48,055	110,313	27,832	51,985	181,448	118,839	355,764	-	921,172
Total	1,547,694	307,688	252,565	295,221	398,714	367,326	125,255	358,314	3,617	3,656,394
GAP	(726,818)	81,683	110,585	82,680	144,190	450,049	246,324	(100,570)	9,681	297,804
Accumulated GAP	(726,818)	(645,135)	(534,550)	(451,870)	(307,680)	142,369	388,693	288,123	297,804	

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

(Thousands of Georgian Lari)

18. 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 2012 amounts owed to customers amounted to GEL 2,846,263 (31 December 2011: GEL 2,735,222) and represented 72% (31 December 2011: 71%) 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 2012 amounts owed to credit institutions amounted to GEL 875,929 (31 December 2011: GEL 921,172) and represented 22% (31 December 2011: 24%) of total liabilities.

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

19. 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:

	2012 (audited)			2011		
	Shareholders	Associates	Key management personnel	Shareholders	Associates	Key management personnel
Loans outstanding at 1 January, gross	–	304	6,558	–	2,191	4,758
Loans issued during the period	–	514	3,721	–	574	3,817
Loan repayments during the period	–	(582)	(4,883)	–	(463)	(2,599)
Other movements	–	(10)	(74)	–	2,775	(128)
Loans outstanding at 30 June, gross	–	226	5,322	–	5,077	5,848
Less: allowance for impairment at 30 June	–	3	86	–	(589)	(103)
Loans outstanding at 30 June, net	–	229	5,408	–	4,488	5,745
Interest income on loans	–	24	355	–	433	292
Loan impairment charge	–	2	(5)	–	(28)	(7)
Deposits at 1 January	36,730	171	5,903	36,410	726	8,999
Deposits received during the period	1,198	9,929	14,899	32,900	9,237	15,576
Deposits repaid during the period	(7,845)	(9,684)	(11,818)	(30,670)	(8,890)	(16,496)
Other movements	(1,644)	29	888	2,512	(300)	(84)
Deposits at 30 June	28,439	445	9,872	41,152	773	7,995
Interest expense on deposits	1,552	17	287	935	19	299
Other income	363	–	70	333	–	48

(Thousands of Georgian Lari)

19. Related Party Disclosures (continued)

Compensation of key management personnel was comprised of the following:

	For the six months ended 30 June	
	2012 (unaudited)	2011
Salaries and other benefits	8,771	10,927
Share-based payments compensation	8,339	7,441
Social security costs	85	190
Total key management compensation	17,195	18,558

The number of key management personnel at 30 June 2012 was 164 (31 December 2011: 169).

20. 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 2012, the Bank and the Group had complied in full with all its externally imposed capital requirements.

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

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

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum total capital adequacy ratio of 12% of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 30 June 2012 and 31 December 2011 the Bank's capital adequacy ratio on this basis was as follows:

	30 June 2012 (unaudited)	31 December 2011
Core capital	788,225	512,238
Supplementary capital	377,423	463,825
Less: Deductions from capital	(230,204)	(184,323)
Total regulatory capital	935,444	791,740
Risk-weighted assets	5,255,043	4,872,931
Total capital adequacy ratio	17.8%	16.2%

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

(Thousands of Georgian Lari)

20. Capital Adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on consolidated statement of financial position and computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 30 June 2012 and 31 December 2011, follows:

	<i>30 June 2012</i> <i>(unaudited)</i>	<i>31 December 2011</i>
Tier 1 capital	957,654	764,377
Tier 2 capital	319,560	380,301
Less: Deductions from capital	(45,754)	(49,341)
Total regulatory capital	1,231,460	1,095,337
Risk-weighted assets	4,379,289	3,839,462
Total capital adequacy ratio	28.1%	28.5%
Tier 1 capital adequacy ratio	21.9%	19.9%
Minimum total capital adequacy ratio	8%	8%

21. Event after the reporting period

On 2 July the Group paid interim dividends comprising British Pound Sterling 0.2732 (Lari 0.7) per share as declared on 7 June 2012.

On 5 July 2012, the Bank completed the issuance of its US\$ 250 million 7.75% Notes (the "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. 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.