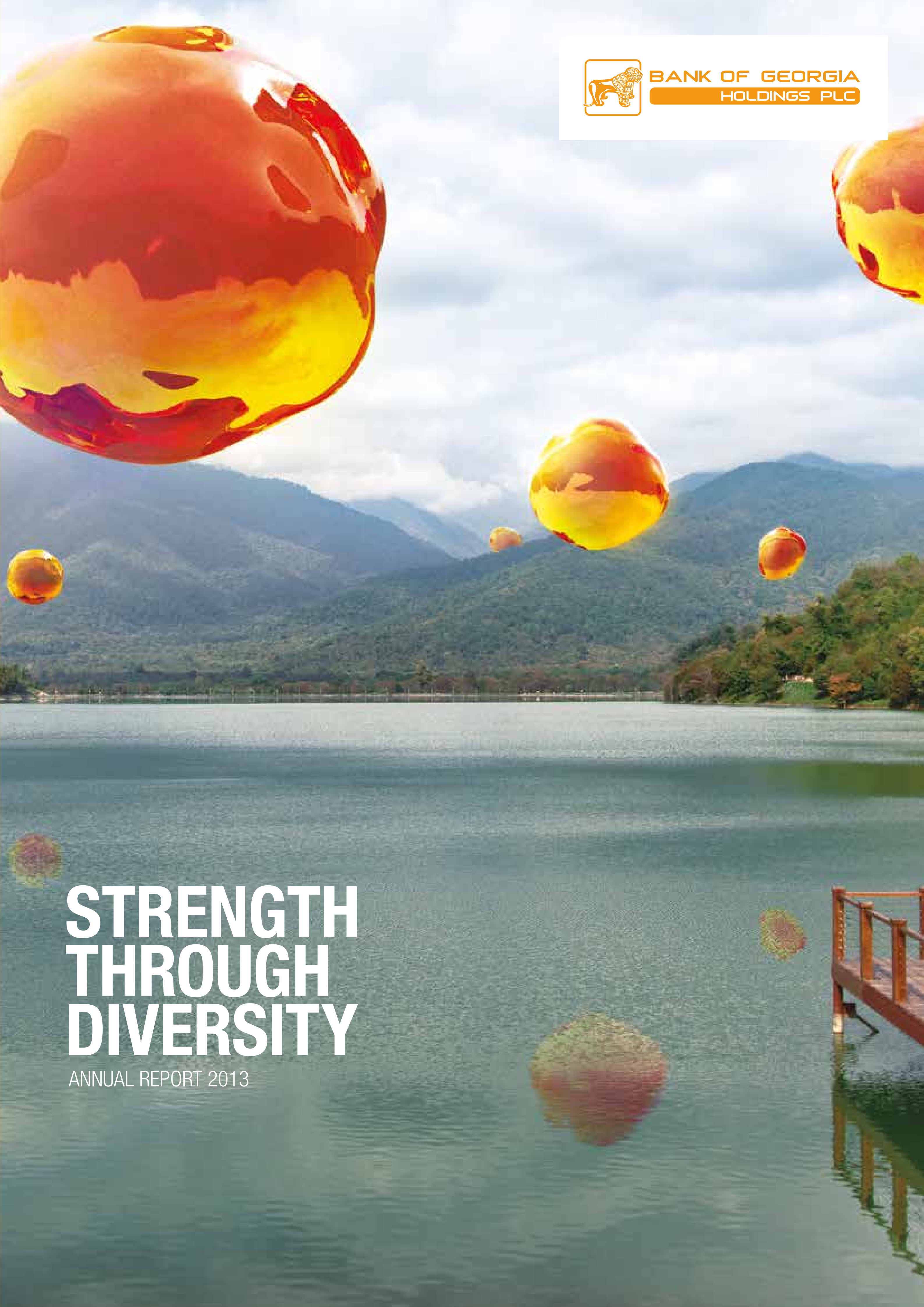


BANK OF GEORGIA
HOLDINGS PLC

STRENGTH THROUGH DIVERSITY

ANNUAL REPORT 2013

STRENGTH THROUGH DIVERSITY

WE PURSUE DIVERSE BUSINESS OPPORTUNITIES THAT ALLOW US TO STRENGTHEN OUR POSITION IN GEORGIA. WE DO THIS THROUGH:

- **REVENUE DIVERSIFICATION IN BUSINESSES WHERE WE HAVE A PROVEN TRACK RECORD**
- **COST CONTROL, ESPECIALLY THROUGH THE DEVELOPMENT OF EXPRESS TECHNOLOGIES, ALLOWING US TO SCALE UP BUSINESS WITH MINIMUM OPERATING COST**
- **ASSET QUALITY – STRENGTHENING OUR COMPETITIVE POSITION AND ABILITY TO INCREASE OUR LOAN PORTFOLIO**

BANK OF GEORGIA HOLDINGS PLC (BGH OR BANK OF GEORGIA HOLDINGS) IS A UK-INCORPORATED HOLDING COMPANY OF JSC BANK OF GEORGIA (THE BANK OR BANK OF GEORGIA) REPRESENTING THE BANK'S SUBSIDIARIES MAKING UP A GROUP OF COMPANIES (THE GROUP).

BANK OF GEORGIA IS THE LEADING BANK IN GEORGIA. THE BANK OFFERS A BROAD RANGE OF RETAIL BANKING, CORPORATE BANKING, INVESTMENT MANAGEMENT, BROKERAGE, HEALTHCARE AND INSURANCE SERVICES TO ITS CLIENTS.

OVERVIEW

FINANCIAL HIGHLIGHTS

Revenue (GEL million)
2012: 498.3 +9.5%
545.5

Net operating income (GEL million)
2012: 232.4 +11.1%
258.1

Profit (GEL million)
2012: 179.6 +16.6%
209.3

Return on Equity
2012: 19.1% -0.5ppts
18.6%

Cost to Income ratio
2012: 44.4% -3ppts
41.4%

Earnings per share (GEL)
2012: 5.22 +13.6%
5.93

Book value per share (GEL)
2012: 30.33 +14.9%
34.85

Leverage (times)
2012: 4.3
4.3

Tier I Capital ratio
2012: 21.2% +1.8ppts
23.0%

Net loans (GEL million)
2012: 3,092.3 +13.9%
3,522.9

Client Deposits (GEL million)
2012: 2,622.9 +18.5%
3,107.2

Liquid assets (GEL million)
2012: 1,624.3 +18.3%
1,921.7

OPERATING HIGHLIGHTS

Branches
2012: 194
202

Number of cards
2012: 825,500
975,647

Employees
2012: 11,095
11,711

ATMs
2012: 478
496

Express Pay Terminals
2012: 221
985

Number of iBank users
2012: 42,923
54,105

Number of mobile bank users
2012: 4,640
14,232

Number of Retail Banking clients
2012: 1,054,248
1,245,048

THE STRUCTURE OF OUR BUSINESS

For more information on our business activities, see page 36

OUR STRATEGIC BUSINESSES ARE RETAIL BANKING, CORPORATE BANKING AND INVESTMENT MANAGEMENT.

Bank of Georgia is the largest bank in Georgia with approximately one-third of market share by assets, loans and deposits see page 16 for more details and our strategic businesses accounted in 2013 for 79.6% of the Group's revenue and 86.4% of the Group's assets as of 31 December 2013.

Our synergistic businesses primarily comprise our Insurance and Healthcare and Affordable Housing businesses.

Our non-core businesses primarily comprise banking operations in Belarus.

94% of our business is based in Georgia, our main country of operations.

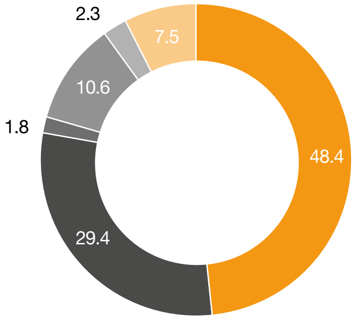
RETAIL BANKING

We operate the largest retail bank in Georgia serving more than 1.2 million customers through 202 branches, 496 ATMs and 985 Express Pay (Self-Service) Terminals and have a sales force of more than 2,000. In order to better serve the different needs of our customers, in addition to the traditional banking services, Retail Banking offers differentiated products and services. These include the well-recognised brands Solo Banking, a premier banking service, and the most recently launched Express Banking, which aims to expand our payment services through various distance channels including ATMs, Express Pay Terminals, internet and mobile banking and the provision of simple and clear products and services to our existing customers as well as the emerging bankable population. See pages 38 and 39 for more information.

CORPORATE BANKING

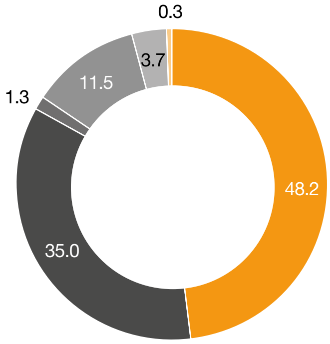
Bank of Georgia is the country's largest corporate lender with unmatched sector knowledge and local expertise. Our dedicated bankers serve more than 7,200 businesses in the country, extending loans and other credit facilities to businesses in various sectors of the economy such as trade, energy, industry and tourism, among others. Our Corporate Banking business offers the most comprehensive range of products and services in the country to provide flexibility and choice to our corporate clients. Corporate Banking serves as the country's leading trade finance business and provides leasing services through the Group's wholly-owned subsidiary Georgian Leasing Company (GLC).

Share in Group's revenue 2013, %



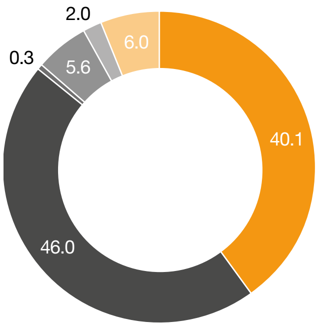
- Retail Banking
- Corporate Banking
- Investment Management
- Insurance and Healthcare
- Affordable Housing
- Other

Share in Group's profit 2013, %



- Retail Banking
- Corporate Banking
- Investment Management
- Insurance and Healthcare
- Affordable Housing
- Other

Share in Group's assets 2013, %



- Retail Banking
- Corporate Banking
- Investment Management
- Insurance and Healthcare
- Affordable Housing
- Other

Excludes inter-segment eliminations. Other includes Belarusky Narodny Bank (BNB), BG Capital (BGC), Liberty Consumer and Corporate Centre.

INVESTMENT MANAGEMENT

Investment Management consists of our Asset and Wealth Management business and our Research platform, launched in 2012. Our Investment Management business is also complemented by an advisory brokerage service. These businesses combine our superior knowledge and capabilities in the Georgian and neighbouring markets both in terms of reach and expertise. Our Research department currently covers Georgian and Azeri economies and publishes Georgian sector research. Our Asset and Wealth Management business comprises private banking services to high-net-worth individuals in Georgia and the provision of information relating to Investment Management products and services internationally, through the representative offices in London, Budapest, Istanbul and Tel Aviv. Investment Management serves international clients from more than 60 countries.

INSURANCE AND HEALTHCARE

Our wholly-owned Insurance and Healthcare subsidiary Aldagi is Georgia's leading life and non-life insurance and healthcare provider. Aldagi's operations are made up of two distinct, but strategically aligned, business platforms: Aldagi Insurance and Aldagi Healthcare. Aldagi Insurance covers more than 800,000 insured clients through its extensive distribution channels, country-wide agency network and strong sales force. Aldagi Healthcare is the largest healthcare provider in Georgia with 36 healthcare facilities and 1,907 hospital beds as of 31 March 2014.

AFFORDABLE HOUSING

Our Affordable Housing business develops, sells and manages residential apartments through the Bank's wholly-owned subsidiary m2 Real Estate. m2 Real Estate develops residential property on real estate assets previously repossessed by the Bank, outsources the construction and architecture works while focusing on project management and sales. The Bank's real estate business is in place to meet the unsatisfied demand for housing while stimulating our mortgage lending business. Having successfully completed its first two residential projects with an IRR of above 30% for both projects, m2 Real Estate has become the most recognisable and trustworthy residential housing brand in the country.

CHAIRMAN'S LETTER

For more information about our governance, see page 66

BANK OF GEORGIA ENJOYED ANOTHER YEAR OF RECORD RESULTS AND THIS ANNUAL REPORT AND ACCOUNTS WILL PROVIDE THE DETAILS ABOUT OUR STRATEGY, EXECUTION AND OPERATIONAL AND FINANCIAL PERFORMANCE. IN THIS YEAR'S LETTER I WOULD LIKE TO FOCUS ON GEORGIA AND SUMMARISE DEVELOPMENTS IN THE YEAR 2013, WHICH CAPS THE MOST FORMATIVE DECADE IN THE COUNTRY'S RECENT HISTORY.

Ten years ago, Georgia embarked upon a path of transforming its Soviet-legacy political and economic system into a market-oriented democracy. As the Group's Board Chairman for nearly four years, I have had a remarkable opportunity to observe and appreciate how Georgia succeeded in tackling the main challenge for a post-Soviet country – corruption, virtually eliminating the country's Soviet-era bureaucracy and replacing it with efficient and functioning administrative bodies. Among the most noteworthy free-market-oriented reforms behind Georgia's economic success were simplification of the tax regime, cutting red tape, creating business and an investor friendly environment. We became witnesses to how effectively these measures translated into the turnaround of the country's economy and the evolution of the private sector into a dynamic business environment. Georgia's liberal economic regime and ample growth

opportunities have been attracting foreign direct investment and pleasantly surprising foreign visitors, the number of which grew from a mere 300,000 in 2003 to an estimated 5.4 million in 2013, exceeding the 4.5 million population of Georgia. Quite impressively, Georgia enjoyed an average annual growth of 5.9% of its real GDP from 2004 to 2013.

Excluding the Eastern European states, Georgia started 2013 as the first post-Soviet country to change power through peaceful and democratic parliamentary elections. These elections were held in October 2012. The change of power through elections was a new experience for Georgia's young democracy. 2013 was also a transitional year from a presidential to a parliamentary system of government, which came into force with the Presidential elections at the end of October 2013. Georgia's Presidential elections were the most free and uneventful elections for the country during its two decades of independence. Although the composition of the new Parliament, with an effective opposition, stalled decision-making processes and therefore, economic growth for the most part of the year, it has, more importantly, resulted in greater political pluralism, debate in the Parliament and overall involvement of the non-governmental sector, which are essential components of a functioning democratic state.

It pleases me to note that despite the challenges associated with the transitional period and the change of power, last year has demonstrated the sustainability of the earlier reforms, institutional strength and the maturity of the Georgian society. Democratic values and practices have become a norm for businesses and society in general. Government's effectiveness during the transition year is evidenced by the continued tight grip on corruption, further improvements in the business environment and stepping up the overdue reform of the judicial system. With the elections and the uncertainties associated with them left behind, the return of Government investment into the economy and increase in business and consumer confidence has led to recovery of economic growth with 7.1% real GDP growth in the fourth quarter of 2013 and 6.7% average growth rate in the first two months of 2014.

Georgia has come a very long way since 2003, and 2013, with its remarkable breakthrough in the political sphere has set the stage for Georgia's further development, building upon the achievements and strengths of the previous years to ensure its economic progress and the continuing modernisation of the country. To this end, one of the key encouraging signs that I would like to point out is the enactment of the Economic Liberty Act as of 1 January 2014, which will ensure the continuation of the country's credible fiscal and monetary policy framework. In addition, Georgia is expected to strongly benefit from the signing of the Association Agreement with the European Union, expected in June 2014. This agreement is expected to include a deep and comprehensive free trade agreement that should support Georgia's economic development and bring the country closer to the West. This may be the most interesting time for Georgia, the Georgians and for those who are investing in Georgia's future.

Bank of Georgia, the country's market-leading franchise, is in the right place at the right time to play an important role in Georgia's unfolding progress and benefit from the economic development of the country. We believe in the effectiveness of our business model and the ability of the management team to execute our strategy and continue delivering high-quality diversified growth.

In conclusion, as a Chairman of the Board of Directors, I would like to note the changes we made on our Board in line with our commitment to the continuous improvement of our corporate governance practices. In 2013, the Board of Directors of BGH resolved to ensure that our Non-Executive Board members would all be fully independent under UK standards. As a result, two Non-Independent Directors, Ian Hague and Hanna Loikkanen resigned, as did Allan Hirst, an Independent Director also left the Board after a nine-year tenure. We are deeply grateful for the devoted services of all three. They have been replaced with three new Independent Non-Executive Directors – Bozidar Djelic, Tamaz Georgadze and Kim Bradley. Please refer to the Governance section of this Annual Report or our website to read about the array of experience and skills these three individuals bring to our team.

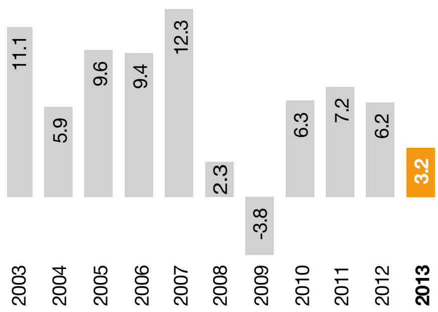
I would like to thank my fellow Board members for their support and commitment and congratulate the management team for the strong performance in 2013 and I look forward to new achievements in 2014.

Neil Janin
Chairman
10 April 2014

New Board Members

Left to right:
Bozidar Djelic
Independent Non-Executive Director
Tamaz Georgadze
Independent Non-Executive Director
Kim Bradley
Independent Non-Executive Director

Real GDP growth rate, %



Source: Geostat

ANOTHER YEAR OF RECORD REVENUE AND PROFIT

For more information on our strategy, see page 16

I AM VERY PLEASED TO REPORT A RECORD 2013 FULL YEAR PROFIT OF GEL 209.3 MILLION, UP 16.6%, SUPPORTED BY RECORD REVENUE OF GEL 545.5 MILLION. EARNINGS PER SHARE, ALSO A RECORD, STOOD AT GEL 5.93 OR £2.07, UP 13.6% IN LARI TERMS. THE RETURN ON OUR SHAREHOLDERS' AVERAGE EQUITY WAS 18.6%. 2013 RESULTS REFLECT THE ROBUST PERFORMANCE OF UNDERLYING BUSINESSES, BALANCE SHEET STRENGTH, EFFICIENCY GAINS AND STRONG PROFITABILITY IN SPITE OF SLOW ECONOMIC GROWTH THROUGHOUT MOST OF THE YEAR.

Economic growth in Georgia, which has for a number of years been a tailwind for us, was lower than expected and resulted in a slower start to the year. However, we witnessed a significant pick-up in business activity after the Presidential elections in October 2013, which saw the candidate of the ruling Georgian Dream Party win a landslide victory. GDP growth was estimated at 1.7% for the first nine months of 2013, but picked up after the elections to reach 7.1% in the fourth quarter. The future also seems optimistic as the IMF forecasts 5% GDP growth in 2014. The state budget was run at a surplus for the first nine months of 2013. In Q4 2013, in order to reach the target level of deficit for the year, spending accelerated particularly on infrastructure projects, resulting in a large increase in the supply of Lari. This in turn caused a small correction in the GEL/US Dollar exchange rate. In February 2014, however, the Lari reversed some of its losses against the major currencies and started to appreciate. In 2013, the National Bank of Georgia (NBG) remained a net buyer of US Dollars, purchasing US$335 million during the year.

In this letter, I would like to review 2013 by highlighting certain key performance measures, analysing the drivers of the results and the underlying strategic initiatives that we believe are fundamental to our success. Our medium-term strategy continues to centre around the 3x20 story that aims at achieving a 20% growth rate in our loan book, 20% Return on Average Equity and a 20% Tier I Capital ratio.

Below, I will start with three strategic initiatives launched over the last several years, which are now driving the diversification of our revenue that shapes our performance.

Revenue Diversification

Payments business

We began implementing our Express Banking strategy in 2012 by rolling out small-format, Express branches offering predominantly transactional banking services to clients through ATMs and Express Pay Terminals. The aim was to make banking relationships simple, faster, cheaper and convenient for both our existing customers and for the emerging bankable population. A Self-Service Terminal can be described as a small bank by itself as it allows a wide array of payment services ranging from current account top-ups and loan repayments to utility bill payments and metro ticket purchases. In 2013, we installed 764 new Express Pay Terminals throughout Tbilisi resulting in 985 total Express Pay Terminals as of the end of the year. We are now leaders in Georgia in the payment systems market. We have combined our travel card for the Tbilisi bus and metro (of which we are the sole provider) and our contactless card with a loyalty programme linked to the customer's current account to create an "Express Card" and have issued over 240,000 such cards in 2013. At the end of the year we had more than 430,000 Express cards outstanding. The effects of the successful execution of our Express Banking strategy are numerous and far reaching and are now expressed in our financial performance that I will be describing below.

Real Estate

Started in 2010 from bad loans, our real estate strategy was to transform those loans into a successful business, and the process has been a textbook case of turning a problem into an opportunity. Our m2 Real Estate operation, which develops real estate property previously repossessed by the Bank, had a 40% IRR in 2013 and has become an integral part of the Bank's mortgage strategy, supporting the mortgage loan book development.

Healthcare

During the past few years, with a view to diversifying our revenue streams and growing our non-interest income, we have taken decisive steps to grow and vertically integrate our Insurance and Healthcare businesses. BGH and Aldagi are currently preparing to list Aldagi's Healthcare-related business on an international stock exchange. In 2013, Aldagi, our Insurance and Healthcare subsidiary, contributed 10.9% to our Company's revenue and 12.0% to its profit.

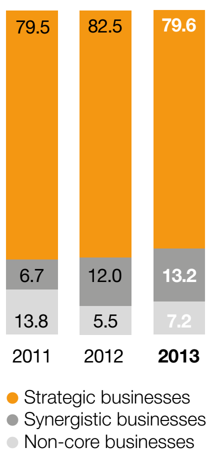
As a result mainly of these, but also of less visible strategic actions, we delivered another exceptional year in terms of profitability, despite the backdrop of a slower-growth economic environment. At 7.8%, NIM held up better than we expected, withstanding the downward pressure from excess liquidity throughout the year that was largely a function of the subdued loan demand prevailing for most of the year. We attribute the resilience of our NIM to a number of factors, including our established market leadership that translates into superior distribution capability and pricing power. The most important contributor to our strong NIM in 2013, however, was the markedly reduced Cost of Funding. In the first half of 2013, we substantially reduced deposit rates, which significantly drove down our overall Cost of Deposits from 7.3% to 5.6%. It is important to note, however, that these deposit rate cuts have not compromised the inflow of deposits as the client deposit balances increased by 18.5% year-on-year. In addition, despite the lower deposit rates offered by the Bank compared to the market, our market share in retail deposits declined by only 0.7%. We consider these developments to be a true testament to the strength of our franchise and the brand name of our company. The reduction of deposit costs, combined with the superior access to capital markets demonstrated by the issuance of the 2017 Eurobond tap of US$150 million, enabled us to price the oversubscribed placement with a low interest rate level of 6.125%. Last, but not least, the increase in current account balances was made possible by the roll-out of the Express Banking strategy. Compared to last year, Retail Banking current account balances grew by GEL 89.6 million, up by 45.7%. We intend to continue decreasing our Cost of Funding, one of the main competitive advantages and central to our profitability. Our Express Banking strategy is expected to further increase our current account balances – the cheapest source of funding. In addition, our superior access to capital markets will enable us to maintain our flexibility in optimising our liability structure.

Cost Control

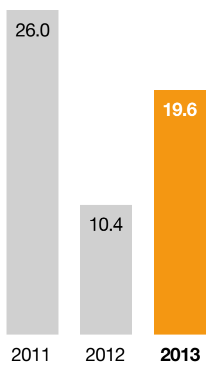
2013 was the fourth straight year that we have combined business growth with improved efficiency as evidenced by a declining Cost to Income ratio. This year, our revenue growth of 9.5% compares to 2.0% growth of our operating expenses, certainly a result of the overall vigilance with our costs across the board. More importantly, the improved efficiency is linked to our Express Banking strategy. We became a formidable player on the retail market through expansion by means of low-cost Express branches that has paved the way for transactional banking. The existing full-scale branches are now focusing on offering value-added products, while technology-intensive Express branches enable us to offer basic banking products and services at minimal cost. In addition, one of the strategic objectives of Express Banking, which is to bring the previously un-banked/emerging bankable population to Bank of Georgia, is now bearing fruit. The tailor-made products and services that became accessible for our new clients at our Express branches is a powerful and low-cost client acquisition method. In 2013, the number of new clients joining the Bank exceeded 190,000, up 18% from last year. Our improved cost efficiency is one of the main reasons our banking operation was able to service its substantially increased client base without growing its headcount, which focuses on IT and remote banking services. On a stand-alone basis, Bank of Georgia's full-time employees decreased by 4.3%.

Going forward, cost discipline will remain a main focus. We are targeting to reduce our Cost to Income ratio to approximately 37% in the next three years. We believe the Express Banking strategy will be the main contributor to the further improvement. The development of Express Technologies will allow us to scale up the business with minimum operating costs.

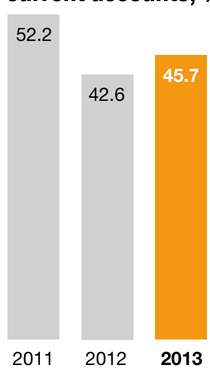
Share in Group's revenue, %



Retail Banking loan book growth, %



Growth of Retail Banking current accounts, %



Loan Book Growth and Improving Asset Quality

The strength and the efficiency of this growing franchise is the cornerstone of our solid competitive position and is also linked to our ability to grow our loan book in the low loan demand cycle in 2013. As the largest bank in the country, Bank of Georgia is best positioned to benefit from the de-dollarisation trends that have translated into a pick-up of Lari denominated credit growth. In addition, our competitive strength on the liability side as evidenced in the ability to reduce funding costs without compromising deposit funding, allowed us to achieve 13.9% loan book growth that cost us 130 bps on the Loan Yield, which compares to the 170 bps reduction of our Cost of Deposits. The result was that we didn't compromise our profitability as demonstrated by the continuing strength of our NIM. We are constantly keeping a watchful eye on asset quality by following prudent risk management policies. Strongly supported by our diversified loan book, our NPLs grew by only 14.7%, comparing favourably to the loan book growth rate. Our Cost of Risk for the year stayed at the top of our targeted range at 1.4%, while our Q4 2013 Cost of Risk of an annualised 0.9% was a noteworthy improvement over the Q3 2013 Cost of Risk of 1.6%, also attributable to the slowdown of the economy in the first half of the year.

Strategic Initiatives Going Forward

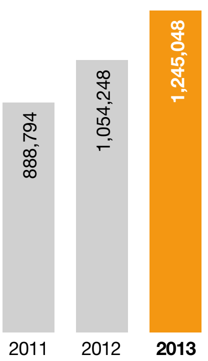
Building upon our 3x20 strategy adopted in 2011, we are set to deliver on our key strategic priorities for the next three years.

We are determined to maintain our market leadership, which gives us economies of scale as well as superior distribution and pricing power. Our market leadership is built on our strong Retail Banking and Corporate Banking businesses, which together are the backbone of the Bank of Georgia franchise. We see the strong growth potential of Solo Banking, our premier banking business, by means of increasing our currently relatively low penetration in the mass affluent segment. The expansion of our Solo Banking will be strongly supported by the offerings of our Investment Management products and services. The further development of our Express Banking business, which is at the heart of our retail strategy, is directly linked to Express Technologies, and we intend to continue investing in IT, which we consider pivotal for the future of the banking industry.

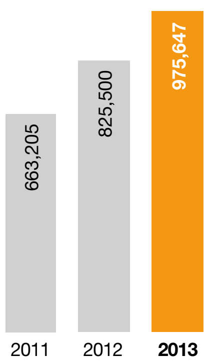
We plan to build the growth on the back of further diversified revenue sources. Knowledge and understanding of the market, both Georgian and regional, and proven superior access to international capital will be the drivers of our Investment Management business growth. In 2013, we have combined our wealth management, research, advisory, and brokerage businesses under Investment Management. We intend to launch our first Investment Management products during 2014 and plan to continue to build upon them with the aim to create an important fee-generating business. Expansion through our payments business in Georgia has already started, and the newest addition is the Express Merchant business, which is an additional revenue source of income from small retailers that are not yet part of the card payment system. We will be focusing on turning payment systems into a significant base for our revenue generation and we are also preparing to leverage our knowledge of IT and payment business by beginning to export IT and payment business outside of Georgia.

Looking back, I am proud of how much has been achieved. Entrepreneurial spirit is at the heart of Bank of Georgia's culture and is one of our strongest assets. It has resulted in the creation of a very strong franchise that will be very difficult to match and even harder to displace. Such success in turn has created a new important task for us. We now have to manage the size, which in our case means striking the right balance as we seek to maintain our entrepreneurial spirit as we further institutionalise our

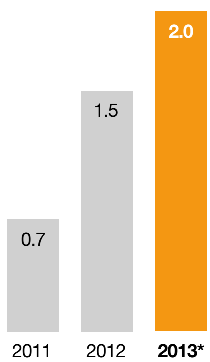
Number of Retail Banking customers



Number of cards outstanding



Dividends per share, GEL



* To be approved by shareholders at the 2014 AGM.

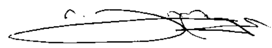
achievements. In 2014, this will be one of our main tasks. Our first step to this end is the recently launched Bank of Georgia University that will help with the identification and development of talent within the Group.

2013 was a momentous year in terms of share price performance, which increased 113% since year-end 2012, outpacing most of our peers. In 2013, Bank of Georgia was the third largest growth stock in the FTSE 250. Average daily liquidity increased by more than 65% to 200,000 shares in 2013. Our long-term investors, namely East Capital and Firebird, significantly reduced their holdings, which led to the widening of our institutional shareholder base, contributing to the improvements in stock liquidity and free float. Our shareholder base is now far more diversified than a year ago: non-emerging market focused institutional shareholders make up c. 36% of our shareholder base compared to just 15% a year ago.

At the 2014 AGM, the Board intends to recommend an annual dividend of GEL 2.0 per share payable in British Pounds Sterling at the prevailing rate. This represents an increase of 33.3%, compared to the annual dividend of GEL 1.5 per share last year, a payout ratio of 33.7% and a dividend yield for shareholders of 2.9%, calculated on the basis of the year-end 2013 results and using the 31 December 2013 share price of £23.95.

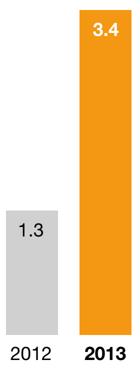
I would like to thank the members of our Board for their engagement and invaluable input and congratulate the management team and more than 11,000 employees of the Group for the strong performance this year. We are looking forward to a busy and exciting year ahead of us. The key strategic initiatives that we undertook a few years ago are gaining momentum and while we made considerable progress this past year, I believe we have much more work ahead of us to realise the great potential of the Bank of Georgia Group. We are confident in our competitive position and remain focused on delivering value to our shareholders, lenders, customers and employees.

As part of a number of significant changes in regulations in the UK, this Annual Report contains a Strategic Report, which is set out on pages 10 to 27. The Strategic Report has been reviewed and approved by the Board of Directors of BGH on 10 April 2014 and I hereby sign the Strategic Report on behalf of the Board of Directors of BGH.

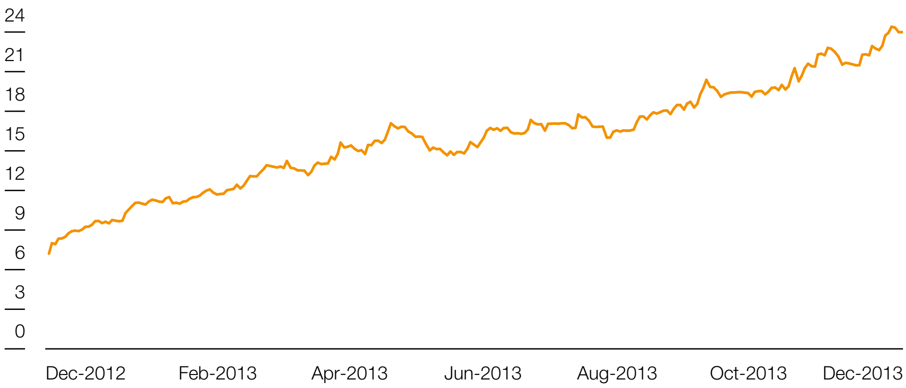


Irakli Gilauri
Chief Executive Officer
10 April 2014

Average daily trading volume, GBP million



Share price performance, GBP



STRENGTH THROUGH DIVERSITY

UNDERSTANDING TOMORROW'S CUSTOMER

BANK OF GEORGIA EXPRESS feel the future

EXPRESS BANKING

The Express Banking strategy is revolutionising the Georgian financial services market by offering a convenient transactional banking experience and access to basic banking products and services. Since the launch in 2012, Express Banking has been at the centre of Bank of Georgia's retail strategy and at the forefront of the move from traditional to transactional banking supported by the Bank's leadership in payments systems.

435,090

Express cards

IN THIS STRATEGIC REVIEW SECTION

A SNAPSHOT OF GEORGIA'S ECONOMIC FUNDAMENTALS

For more information on our performance, see page 30

OVER A DECADE OF GROWTH-ORIENTED REFORMS AND ONGOING ECONOMIC LIBERALISATION IN GEORGIA HAVE RESULTED IN ONE OF THE RARE SUCCESS STORIES IN POST-SOVIET ECONOMIES.

A string of business-friendly reforms, which included the eradication of administrative corruption, downsizing bureaucracies, reforming public services and improving the business environment have transformed Georgia into one of the most business friendly economies in the world. Economic growth reached an annual average growth rate of 5.9% over the last decade, outpacing much of Eastern Europe.

The liberal economic and social reforms, combined with substantial investments in infrastructure have driven FDI to fresh highs – over the past decade FDI averaged c. 10% of GDP. Georgia has also significantly benefited from strong tourist inflows as the number of foreign visitors has grown at a CAGR of c. 33% from 2005 to 2013, with c. 5.4 million visitors to Georgia in 2013 (2005: 0.6 million). Net remittances have also remained robust supporting growth in the country throughout the last decade and totalling c. 7.9% of GDP over the last five years.

Georgia's Liberty Act, which came into effect in January 2014, ensures continuation of the country's credible fiscal and monetary policy framework. This Act caps Government expenditure at 30% of GDP, budget deficit at 3% of GDP and Government debt at 60% of GDP. It also requires a referendum to be held before initiating new taxes and raising existing tax rates, subject to certain exceptions. Georgia is already one of the world's most friendly tax regimes, with only six taxes imposed of which corporate income tax and personal income tax are 15% and 20%, respectively.

Georgia's geographic location between land-locked energy rich countries in the East and the European markets in the West has largely determined Georgia's role as an important transit corridor, hosting several pipelines one of which is BP's Baku-Tbilisi-Ceyhan pipeline, transporting Azerbaijani crude oil through Georgia to Turkey. One of the three ports on Georgia's Black Sea coast is owned and managed by Denmark's A.P. Moeller-Maersk. The Georgian economy is well positioned to become a hub for regional trade to benefit from significant FDI, largely in the hydro energy sector, and to capitalise on its still significantly untapped potential in the tourism and agricultural sectors. Georgia is well positioned to accelerate its growth-oriented reforms, particularly following the expected signing of the Association Agreement with the European Union by June 2014, which is expected to include a Deep and Comprehensive Free Trade Agreement (DCFTA).

The Georgian Economy in 2013

Georgia's economy in 2013 was largely driven by domestic factors. Much of the year was sandwiched between two very significant elections: Parliamentary elections at the end of 2012, which saw a smooth democratic transfer of power for the first time in the country's history, and Presidential elections in October 2013. Both foreign and domestic businesses maintained a fairly cautious stance, with regard to new investments until the end of this election phase.

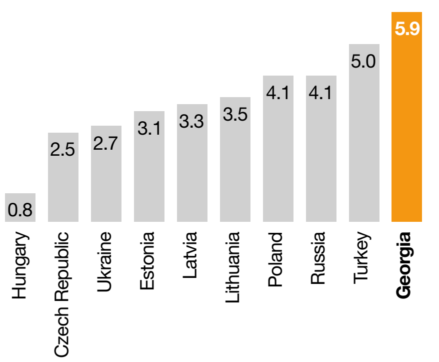
In the first nine months of 2013, the economy grew at a meagre 1.7%. The decisive victory of the ruling Georgian Dream coalition party's candidate in the October 2013 Presidential elections removed political uncertainty resulting in a significant acceleration of GDP growth to an annualised 7.1% in the last quarter of 2013. Geostat estimates 3.2% GDP growth rate for the full year 2013. Strong growth continued into 2014, reaching an annualised 8.0% in January and 5.4% in February, although this was partially attributable to a favourable base effect.

The pick-up in growth was also driven by an increase in Government spending in Q4 2013, following conservative fiscal policy in the first nine months of 2013. The expansionary fiscal policy in the fourth quarter, as well as a higher demand for foreign currency due to a pick-up in imports in Q4 2013, resulted in a 4.8% depreciation of Lari against the US Dollar in 2013, although the NBG smoothed this trend via market interventions. In the absence of these issues, the Lari regained some of its losses in the beginning of 2014 prompting the NBG to buy foreign currency through currency auctions. Despite the exchange

Real GDP growth rate, %

Source: Geostat

Comparative real GDP growth rates, % (2004–2013)



Source: IMF, Geostat

rate volatility and NBG interventions, Georgia's gross international reserves remained strong throughout 2013 and amounted to US$2.8 billion at the end of the year.

Georgia is experiencing deflation for a second year in a row. Despite a pick-up in annual inflation at the end of the year, annual average inflation remained below zero, mainly on the back of a drop in food prices.

The current account deficit for the year was an estimated 5.9%, compared to 11.7% in 2012. The significant improvement was a result of a 23.2% increase in exports compared to 0.1% increase in imports for the year, although imports picked up as the economic growth accelerated towards the end of the year. The deficit was comfortably financed with foreign inflows of capital. Net remittances grew by 7.8% in 2013 reaching US$1.3 billion and FDI for the year totalled an estimated US$914 million (2012: US$912 million).

In December 2013 the Parliament of Georgia approved Georgia's state budget for 2014. Real GDP growth is projected to be 5.0% and average inflation 3.5% in 2014.

Georgian Banking Sector Overview

The Georgian financial services sector has been one of the fastest growing sectors in the country, growing at a CAGR of 29% during the past decade. Despite the high growth rate, banking penetration remains low with gross loans to GDP and deposits to GDP at 39% and 36%, respectively, as of year-end 2013, indicating a substantial growth potential should Georgia achieve penetration rates more in line with its peers. The banking sector is entirely privately owned and is quite concentrated with the two largest banks accounting for 58% of total assets.

The banking sector is well regulated with the National Bank of Georgia maintaining strict banking prudential requirements. Given this tight regulation, the Georgian banking sector remains extremely well capitalised with very low leverage. Despite a high level of capital, the banking system has remained very profitable with a system wide average return on average equity of 13% over the past three years.

Georgian Insurance and Healthcare Sectors

Historically, the healthcare market in Georgia has been fragmented with a limited number of managed healthcare chains operating in the country as compared to individually managed hospitals and clinics, many of which were older, Soviet-era facilities. Total healthcare spending has been increasing over the last 10 years and, in 2011, which is the most recent data available, represented GEL 2.3 billion (US$1.3 billion), according to the National Health Accounts published by the Ministry of Labour, Health and Social Affairs of Georgia (MOH). Strongly supported by private investments, especially from insurance companies, in 2011 and 2012, numerous new healthcare facilities were opened contributing to 5,800 new beds, by 2013 representing approximately 65% of Georgia's total bed capacity by end of 2013. These new hospitals are replacing the antiquated and dilapidated facilities from the Soviet period.

Georgia has one of the highest relative total expenditures on healthcare (9.9% of GDP) according to the World Bank 2011 health expenditure report. Georgia also has one of the lowest general Government expenditures on healthcare as a percentage of total Government expenditure, recording 6.9% in 2011 according to the World Health Organization (WHO) 2012 country report. In 2011, Government total expenditure on healthcare equalled 22.1% of total healthcare expenditure in Georgia. Additionally, insurance penetration is still quite low in Georgia. Health, life and Property and Casualty (P&C) insurance gross premiums written (GPW) represented only 1.7%, 0.1% and 0.5% of GDP respectively, in Q3 2013.

On 28 February 2013, MOH launched a Universal Healthcare Programme (UHP), which reaches all citizens of Georgia. Prior to the UHP launch, only half of Georgia's population was insured. The shift to the universal Government-financed UHP is seen as a significant opportunity for the short- and medium-term growth of the industry which will strongly benefit from the increased accessibility of the population to health insurance.

Ease of Doing Business Georgia ranking in 2014

8th

Source: World Bank-IFC Doing Business Report
Up from 115 in 2005, ahead of UK, Australia and UAE

Economic Freedom Index Georgia ranking in 2014

22nd

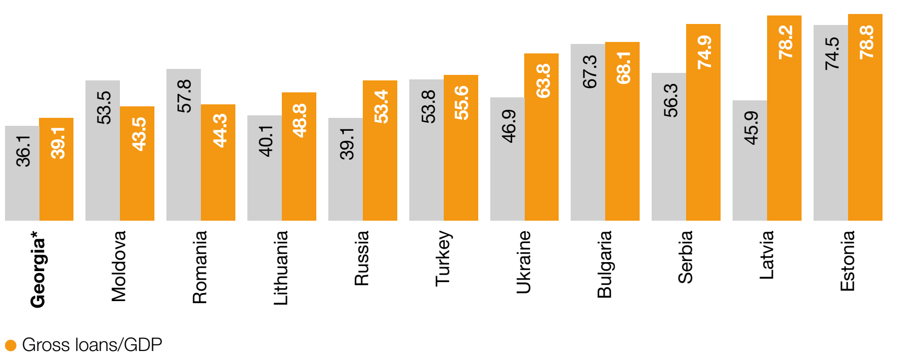
Source: Heritage Foundation
Ahead of Hungary, France and Italy

Global Corruption Barometer (% admitting having paid a bribe in 2013)

4%

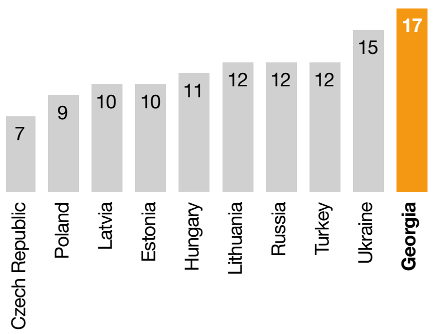
Source: Transparency International
Ahead of UK, US and Czech Republic

Comparative loan and deposit penetration rates, % (2013)



Source: NBG, Central Banks
* Excluding inter-bank loans.

Bank capital to assets, % (2012)



Source: World Bank

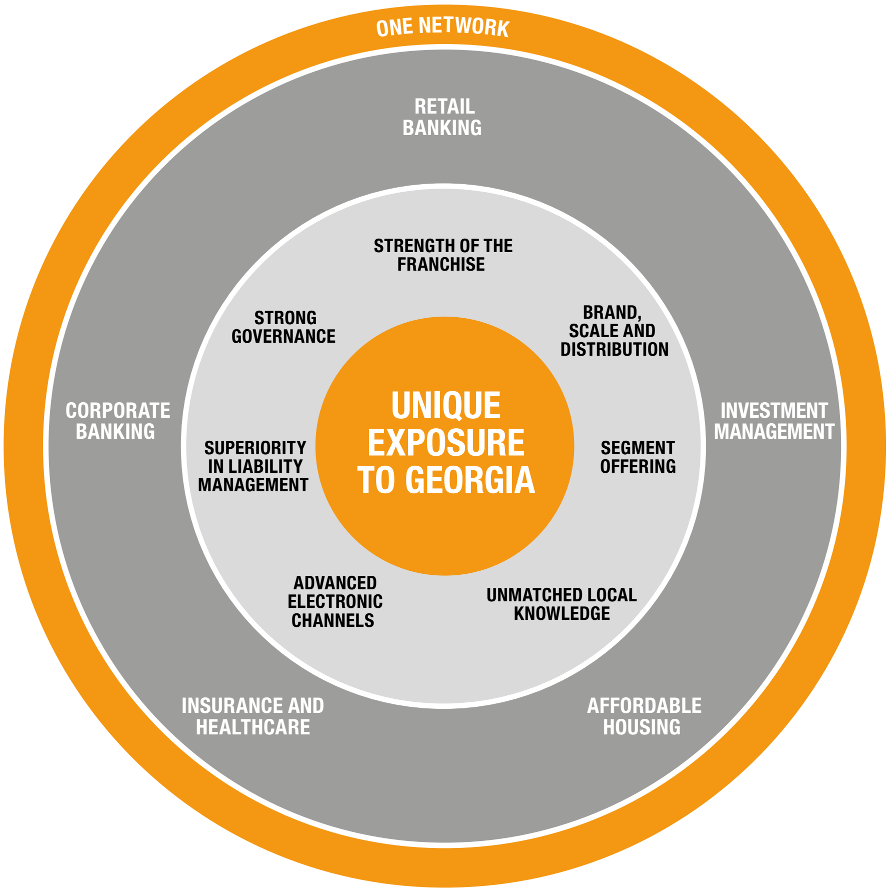
OUR BUSINESS MODEL IS SIMPLE:
WE LEVERAGE OUR STRATEGIC ASSETS AND DISTINCTIVE CAPABILITIES TO CREATE:
- **PROFITABLE GROWTH; AND**
- **SUPERIOR VALUE FOR OUR CUSTOMERS, SHAREHOLDERS, EMPLOYEES AND THE WIDER COMMUNITY.**

Over the last few years we have created value in all of our business lines such as banking, remote channels, payment technologies, insurance, healthcare and residential housing development. As we continue to identify and invest in new growth opportunities, we are at the same time institutionalising our strengths into the very core of the Bank.

THE BANK OF GEORGIA DISTINCTION

For more information about our KPIs, see page 18

A BUSINESS MODEL FOCUSED ON OUR CORE MARKET



THE ELEMENTS OF OUR BUSINESS MODEL

Strength of the franchise	– Market leader in Retail, Corporate, Investment Management, Insurance and Healthcare business lines, offering the most comprehensive range of products and services in Georgia. – Undisputed leader in mass retail with an unmatched segment offering through the Retail and Express Banking franchise. – Distinctive culture and values based on entrepreneurial spirit, teamwork and professionalism, with each of our business lines representing a formidable competitor in its respective field. – Diversified revenue and profit streams delivering strong organic growth on the back of a disciplined approach to risk, capital and liquidity.
Brand, scale and distribution	– Well-established and trusted brand with a spontaneous awareness rate of 96%* in Georgia. – Serves more than 1.2 million Retail Banking customers through its sales force of over 2,000, 202 branches, 496 ATMs and 985 Express Pay Terminals – the largest distribution network in the country. – Benefiting from economies of scale with efficiency gains resulting in an improved Cost to Income ratio from 57.4% in 2010 to 41.4% in 2013. – Economies of scale, cross-selling and efficiency benefits result in a wide range of differentiated and more affordable products and services for our customers, while at the same time, translating into rising returns to our shareholders.
Segment offering	– Segment approach in Retail Banking: Superior mass and emerging market client reach through Express Banking; growing coverage of Micro and SME sectors; well-positioned to expand in premier segment by introducing Investment Management products to mass affluent population. – Each of the market-leading business lines strongly benefits from being part of the whole.
Unmatched local knowledge	– Exclusive insight into the Georgian market through trusted relationships with our extensive client base. – Unbeatable understanding of the local market through the extensive corporate client coverage across all/most sectors of the economy and strong research capabilities. – Streamlined and efficient credit approval process coupled with loan loss provisioning. Loan collection systems and an in-house developed and maintained credit scoring system, translates into an unmatched knowledge of the bankable population and customer behaviour – a distinctive competitive advantage of the Bank.
Advanced electronic channels/payment systems	– Established leader in payment systems such as internet banking, mobile banking and Express Pay Terminals complementing our Express Banking strategy; exclusive issuer and acquirer of American Express cards in Georgia. – Capturing more than half of the merchant acquiring network in the country.
Superiority in liability management	– Flexibility with liability management through superior access to international capital markets. – The strength of franchise and brand name translates into pricing power as deposit inflows continue notwithstanding lower interest rates than offered on the market. – Ability to replace more costly borrowings with cheaper funding leads to improving funding costs.
Strong governance	– Culture of transparency and adherence to robust governance as a premium listed company on the London Stock Exchange, the only Georgian company listed on an international stock exchange. – An employer of choice, Bank of Georgia attracts top talent both at senior and middle management levels. – Led by an experienced, primarily Western educated and trained team of professionals. – Fully Independent Non-Executive Directors on the Board of Directors of BGH and the Supervisory Board of the Bank. – Primarily deferred share-based compensation for top executives of the Group, aligning long-term shareholder interests with management reward.

* According to Syndicated Tracking Study for Retail Banking Industry conducted by TNS.

OUR KEY STRATEGIC PRIORITIES OVER THE NEXT THREE YEARS

For more information on our management group, see page 74

IN 2011 WE SET OUT TO DELIVER WHAT WE CALL OUR 3X20 STRATEGY THAT ENTAILS A 20% METRIC FOR OUR RETURN ON AVERAGE EQUITY, TIER I CAPITAL STRENGTH AND BUSINESS GROWTH, THE LATTER DRIVEN BY LOAN BOOK GROWTH AS WELL AS CONTRIBUTIONS FROM OUR SYNERGISTIC BUSINESSES.

Three years later, we remain confident in our strategy and while we take a long-term view, the agility and lean structure of the Group enables us to be prepared to make adjustments to respond rapidly to market developments. As an example, in 2013, we came short in terms of the targeted loan book growth for the year, in line with the slowdown of the economic growth of the country in the first nine months of the year.

Despite the 13.9% relatively subdued growth rate of our loan book, the resilience of our franchise was demonstrated by the robust profitability and efficiency indicators such as NIM of 7.8% and the reduction of our Cost to Income ratio to the record low 41.4% as we continued to grow our revenues at a faster rate than our costs. The expected return of Georgia's economic growth rate to more than 5% gives us the confidence to return to delivering our 20% metric for the growth of our loan book, on the back of Tier I Capital Adequacy ratio of 23% and Return on Average Equity of 18.6% in 2013.

The Group's ultimate objective is to maximise Return on Average Equity by delivering long-term shareholder value. We believe we can continue to deliver exceptional results by implementing our strategy as laid out below.

Delivering against our strategy in 2013

Strategic pillar	Measure	2013 Performance	Target for next 2-3 years
Maintain market leading position	Market share/ Ranking by: – assets – loans – client deposits	 **33.8%/#1** **32.5%/#1** **30.4%/#1**	Strongly positioned to maintain leading position in Georgian market
Profitable growth	Net Interest Margin	**7.8%**	7.0%–7.5%
Efficiency improvement	Cost to Income ratio Operating leverage	**41.4%** **7.5 percentage points**	37% Positive
Prudent liability management	Net Loans/ Deposits + DFIs	**96.2%**	100%–110%
Maintain asset quality	Cost of Risk ratio	**1.4%**	c. 1.5%
Dividend strength	Dividend payout ratio	**33.7%**	Maintain the range of 25%–40% payout rate

Market share (total assets)
2012: 37%

34%

Number of Retail Banking customers
2012: 1,054,248

1,245,048

How We Are Going to Achieve our Targets

1. Strengthen market leader position

How are we doing this:

- Expand our product offering through continuous innovation to remain at the forefront of meeting the growing funding and investment needs of our extensive retail customer and corporate client base.
- Expand our Express Banking strategy to increase our number of customers by attracting the currently unbanked population and by means of a shift towards transactional banking.
- Leverage our superior distribution network and local expertise across various business lines to step up our cross-selling strategies.
- Shift from current segment approach to client-centric approach with an aim to capture growth opportunities and increase penetration through cross-selling, to be measured primarily by an improvement in product/client ratio.

Progress so far:

- Attracted more than 190,000 Retail Banking customers in 2013, predominantly through the Express Banking service.
- Added 764 new Express Pay Terminals resulting in a total of 985.
- Increased the share of Aldagi, our Insurance and Healthcare subsidiary, to 29.0% of the Georgian insurance market. Aldagi's Healthcare business grew from a 1,041 hospital bed operation from year-end 2012 to 1,907 hospital bed operation across the country as of 31 March 2014, accounting for 20.5*% of total hospital beds in Georgia in the first quarter of 2014.

* Source: National Centre for Disease Control, Company Data.

2. Increase revenue diversification

How are we doing this:

- Leverage our access to capital and local knowledge to roll-out Investment Management products that will enhance the Bank's fee generating capabilities.
- Leverage our local knowledge, track record and strength of our business lines to identify and capitalise on new revenue streams.
- Expand on our market-leading payments business in Georgia through our Express Banking strategy.
- Continued investment in our IT and payment business with the view of exporting the business outside Georgia.

Progress so far:

- Markedly increased contribution to the Group's revenue from Insurance and Healthcare and Affordable Housing businesses (from 5.9% in 2011 to 13.1% in 2013).
- Net non-interest income makes up 42.4% of total revenue, compared to 39.6% in 2010.

3. Decrease Cost of Funding

How are we doing this:

- Leverage the Bank's pricing power stemming from its market leadership to continue optimising its Cost of Deposits without compromising deposit growth.
- Expand Express Banking to increase current accounts, the cheapest source of funding.
- Access international capital markets to attract cheaper international funding.

Progress so far:

- Decreased Cost of Deposits by 170 bps to 5.6% in 2013; Cost of Funds reduced from 7.3% to 5.9%.
- Current account balances increased by 18.6% to GEL 1,217.0 million in 2013; and number of new current accounts opened exceeded 220,000.
- Demonstrated resilience of NIM which was supported by aggressive liability pricing on the back of downward pressures from excess liquidity.
- Issued US$150 million Eurobond at the record low rate of 6.125%.

4. De-dollarise balance sheet

How are we doing this:

- Utilise the NBG repo facility for floating rate Lari mortgage loans to the extent practicable.
- Encourage Lari savings by maintaining a high differential between the US Dollar and Lari savings rates.

Progress so far:

- Issued approximately GEL 254 million Lari denominated loans linked to the refinancing rate.
- Lari denominated loans increased from 23.0% in 2010 to 34.9% as of year-end 2013.
- Lari denominated deposits grew from 28.8% in 2010 to 32.1% in 2013.

5. Cost discipline

How are we doing this:

- Continued cost control measures and implementation of technologies aimed at improving workflow efficiency.
- Leverage the strength of our franchise to increase the cost efficiency benefit for the underlying businesses and the Group as whole.
- Expansion of Express Banking strategy and investing in Express Technologies to enable us to further scale up the business with minimal incremental operating costs.
- Education platform to contribute further to lowering operating costs over the medium and long term.

Progress so far:

- Cost to Income ratio reached a record low of 41.4% in 2013.
- Delivered positive operating leverage for a fourth consecutive year.
- Demonstrated improved efficiency as 4.3% less full-time employees supported an 18.1% increase in the Bank's client base on a stand-alone basis compared to 2012, without compromising the quality and high standards that we are committed to adhere to.

6. Create Education platform

How are we doing this:

- Most recently started to create education platform and established Bank of Georgia University.
- Education platform to be used for training purposes as well.
- Aimed at identifying talent and future leaders, including from among our 11,711 employees.

Progress so far:

- Bank of Georgia University received authorisation status and is preparing to start offering an MBA in Finance.
- Selected academic staff, which include some of the most prominent lecturers and professors in Business Administration in the country, as well as Bank of Georgia's management with relevant backgrounds.

Number of cards
2012: 825,500
975,647

Express Pay Terminals
2012: 221
985

Number of employees
2012: 11,095
11,711

A STRONG PERFORMANCE

For more information on our financial results, see page 36

Returns KPIs

Diversified revenue sources, improved funding and operating costs were the main drivers of the exceptional results in terms of profitability against the backdrop of slower-growth environment in 2013.

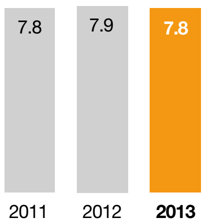
The resilience of NIM is a function of our distribution capabilities and pricing power. The substantial reduction of our funding costs during the year enabled our NIM to withstand downward pressures from higher excess liquidity levels than in 2012. The double digit growth of the loan book in 2013, the further increased contribution of non-interest income to our revenue, strong margins and improving cost efficiency translated into 16.6% growth in profit. As a result of strong capital generation, the Board intends to recommend a 33.3% increase in annual dividend payment to GEL 2.0 per share paid in GBP in respect of 2013 (2012: GEL 1.5), which is subject to shareholder approval at the AGM.

In 2014 and beyond, we will continue to focus on profitable earnings growth, to be driven by good levels of customer lending growth without compromising asset quality, an increase in the share of non-interest income in the revenue as we grow our fee generating businesses and expand our Insurance and Healthcare operations.

RETURNS MEASURES

Net Interest Margin
2012: 7.9%

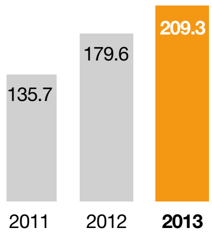
7.8%



Net Interest Margin is calculated as net interest income divided by monthly average interest earning assets. Interest earning assets include amounts due from credit institutions, debt securities and net loans to customers and net finance lease receivables.

Profit, GEL million
2012: 179.6

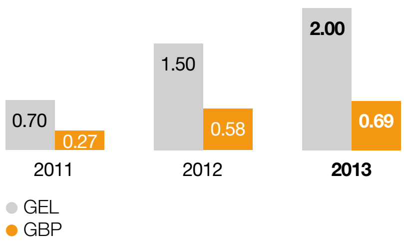
209.3



Profit is calculated in accordance with IFRS and represents revenue less operating expenses, cost of credit risk, net non-operating expenses and tax expense.

Dividends per share, GEL*
2012: 1.5

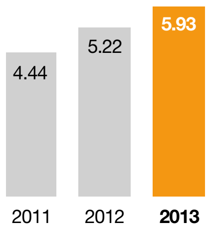
2.0



* The following GEL/GBP exchange rates are used for presenting GBP amounts: 2013: 2.9035/GBP as of 31 March 2014, 2013 dividends to be approved by shareholders at the 2014 AGM, 2012: 2.6051/GBP as of 10 June 2013, the currency conversion date for the year 2012, 2011: GEL 2.5626/GBP as of 25 June 2012, the currency conversion date for the year 2011.

Earnings per share, GEL
2012: 5.22

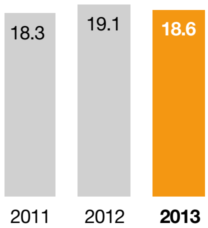
5.93



Profit attributable to shareholders divided by weighted average number of outstanding shares.

Return on Average Equity
2012: 19.1%

18.6%



Profit attributable to shareholders divided by monthly average total equity attributable to shareholders. Total equity attributable to shareholders is made up of share capital, additional paid-in capital, treasury shares, retained earnings and other reserves.

Efficiency KPIs

The significant reduction of the Cost to Income ratio for the fourth consecutive year indicates the successfully combined business growth with improved efficiency. The shift to technology intensive transactional banking at Express branches is at the centre of the efficiency improvements. Other measures such as various investments in IT aimed at optimisation of workflow processes, introduction of cost centre reporting procedures as well as our strong focus on cost control across the board, have contributed to the decline of the Cost to Income ratio to its lowest level in the recent past.

Strongly supported by diversified sources, revenue grew at a rate of more than four times the growth rate of costs (9.5% compared to 2.0%).

Positive operating leverage is one of the key execution priorities for the management in order to ensure that revenues increase at a faster rate than costs on an ongoing basis.

Growth KPIs

The double digit loan book growth was boosted by the increased credit demand in the fourth quarter of 2013, reversing the trend of subdued demand for corporate credit during the first nine months of 2013. Retail Banking had a strong lending momentum throughout the year and saw a 19.6% growth in its loan book. Pick-up in Corporate Banking lending in the fourth quarter of 2013 led to the 7.2% growth of Corporate Banking. We expect double digit growth of the net loan book over the medium term.

In 2013, we comfortably financed the loan book growth by increasing our Client Deposits in spite of reduced deposit funding costs. The Loan to Deposit and DFI ratio stood at a comfortable level of 96.2% as of 31 December 2013. The borrowed funds grew due the issuance of Eurobonds in November 2013, adding to the high liquidity pool, while strongly contributing to the improvement of Cost of Funding to 5.9% compared to 7.3% last year, thus allowing repayments of more costly international subordinated debt funding.

Capital KPIs

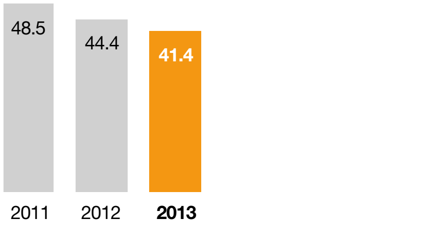
In 2013, our capital position was further strengthened to a robust Tier I Capital Adequacy ratio of 23.0% from 21.2% in 2012. Strong capital generating capability led to an increase in the annual dividend payment recommendation for 2013. The risk weighted assets increase of 7.0% reflects the 11.1% increase in interest earning assets during the year. In 2014 and beyond, we intend to maintain strong capital ratios, well above the regulatory requirements.

EFFICIENCY MEASURES

Cost to Income ratio

2012: 44.4%

41.4%

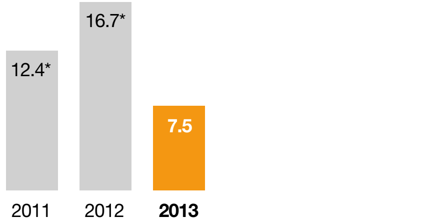


Operating expenses divided by revenue.

Operating leverage

2012: 9.6%

7.5%



Operating leverage is measured as percentage change in revenue less percentage change in operating expenses.

* Adjusted for one-off currency gain from BYR in 2011 in the amount of GEL 25.1 million.

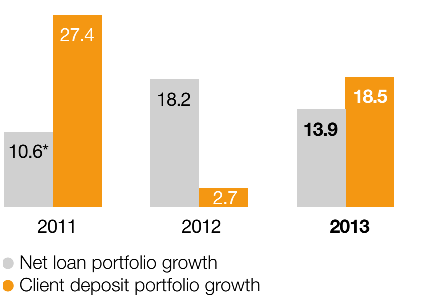
GROWTH MEASURES

Net loan and client deposits growth

2012: 18.2% / 2.7%

13.9% / 18.5%

Net loans Client deposits



Net loans to customers and net finance leases receivables at the end of the period compared to the same period of the prior year.

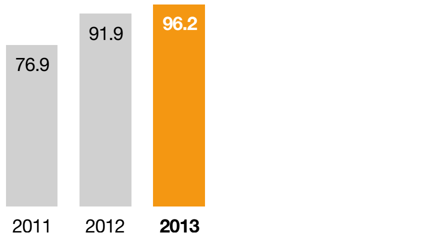
Client Deposits at the end of the period compared to the same period of the prior year.

* Due to base effect of particularly strong growth in 2010 (41.0%).

Net loans to customer funds and DFIs

2012: 91.9%

96.2%



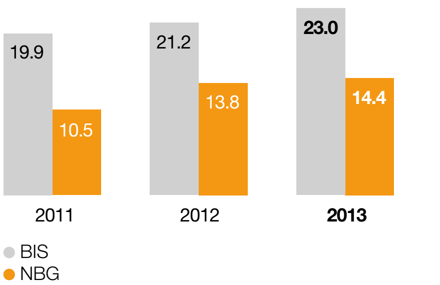
Net loans to customers and net finance leases receivables divided by amounts due to customers and DFIs.

CAPITAL MEASURES

Tier I Capital Adequacy ratio

2012: 21.2%

23.0%



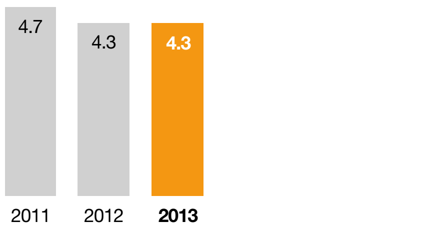
BIS Tier I Capital Adequacy ratio: Tier I Capital divided by risk weighted assets.

NBG Tier I Capital Adequacy ratio: Tier I Capital divided by risk weighted assets.

Leverage (times)

2012: 4.3

4.3



Leverage is calculated as total liabilities divided by total equity.

RISKS AND UNCERTAINTIES

For more information on our markets, see page 12

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's business and performance are affected by macroeconomic and market conditions in Georgia and globally. In recent years, the global economy has experienced a severe downturn, 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. There continue to be concerns that certain countries and markets may experience "double-dip" or prolonged recessions, with certain markets experiencing heightened volatility over an extended period of time.

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 and other forms of liquidity were significantly impaired and the cost of financing for financial institutions increased considerably. As a result, the cost of borrowing in wholesale debt markets increased for the Group and there were periods when it was not possible to raise finance in debt capital markets. The financial crisis also had a significant adverse effect on the valuation of assets and the capital position of many financial institutions globally.

The persistence or re-emergence of these conditions and their effects could create new dangers for the banking sector, both globally and in Georgia, which is ongoing and could have a material adverse effect on the Group's business, its financial condition and the results of its 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 social, political and military 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. In the past, these disputes have led to sporadic violence and breaches of peace-keeping operations. In August 2008, the conflict in the Tskhinvali Region/South Ossetia escalated as Georgian troops engaged with local militias and Russian forces that crossed the international border, and Georgia declared a state of war (the 2008 Conflict). Although Georgia and Russia signed a ceasefire, Russia has recognised the independence of the breakaway regions and tensions remain as Russian troops continue to occupy Abkhazia and the Tskhinvali Region/South Ossetia. Russia is also opposed to the eastward expansion of the North Atlantic Treaty Organisation, potentially including ex-Soviet republics such as Georgia and Ukraine. In November 2013, Georgia's Association Agreement with the EU, which includes a Deep and Comprehensive Free Trade Agreement, was initialled at the Eastern Partnership Summit in Vilnius. The signing of the agreement, which is expected in June 2014, could potentially be met with strong opposition from Russia.

In addition, relations between Georgia's principal neighbours, Azerbaijan and Armenia, remain tense, and there are sporadic instances of violence between these two countries. Any future deterioration or worsening of Georgia's relationship with Russia, including those related to border and territorial disputes, any major changes in Georgia's relations with Western governments and institutions (in particular in terms of national security), any changes in Georgia's importance to Western energy supplies, any changes in the amount of aid granted to Georgia or the ability of Georgian manufacturers to access world export markets, or any significant deterioration in relations between Azerbaijan and Armenia, may have a negative effect on the political and economic stability of Georgia.

In addition, the Group may be affected by social, political and military unrest in relations between Russia and Ukraine in relation to Crimea or otherwise. The social unrest in Ukraine in early 2014 resulted in an escalation of military tensions between Russia and Ukraine in February and March 2014. This resulted in international uncertainty and periods of heightened volatility in financial markets and impacted the economic stability of Russia and Ukraine, and have resulted in political and economic sanctions being imposed by Western Governments against Russia. Russia and Ukraine accounted for 6.5% and 6.6%, respectively of Georgia's total exports in 2013. While the direct impacts on Georgian economy are not likely to be great, the indirect impact of increased tensions, sanctions or even war could have a material adverse effect on the Group's business, its financial condition and the results of its operations.

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

Georgia accounted for over 90% of the Group's total consolidated revenue in 2012 and 2013. Therefore, macroeconomic factors relating to Georgia, such as GDP, inflation, interest rates and currency exchange rates, as well as unemployment and personal income 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. Market turmoil and economic deterioration in Georgia can also have a material adverse effect on the liquidity, businesses or financial condition of the Group's borrowers, which in turn can increase the Group's non-performing loans, impair its loans and other financial assets and result in decreased demand for the Group's products. In such an environment, consumer spending can 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, its financial condition and the results of its operations.

There can be no assurance that the Georgian economy will return to higher growth rates or that it will not experience a further deterioration.

Following the collapse of the Soviet Union, the Georgian economy became highly dollarised. The dollarisation rate of the banking system has fluctuated significantly in recent years. Although the NBG has adopted measures to support the development of Georgia's domestic money markets, the dollarisation rate could adversely impact the effectiveness of the implementation of the NBG's monetary and exchange rate policies, which could negatively impact the purchasing power of the Lari, restrict future GDP growth in Georgia and depress Georgia's investment climate. Any of these effects could have a material adverse effect on the Georgian economy and, therefore, a material adverse effect on the Group's business, its financial condition and the results of its operations.

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

Although the Lari is a fully convertible currency, there is generally no market outside Georgia for the exchange of Lari. A market exists within Georgia for the conversion of Lari into other currencies, but it is limited in size. While the Government of Georgia has stated that these reserves will be sufficient to sustain the domestic currency market in the short term, a lack of growth of this currency market may hamper the development of Georgia's economy, which could have a material adverse effect on the businesses of the Group's corporate customers and, in turn, a material adverse effect on the Group's business, its financial condition and the results of its operations.

In addition, there has historically been significant instability in the Lari to US Dollar exchange rate, although during 2012 and 2013 the exchange rate has remained relatively stable but with a gradual further depreciation against the US dollar through to the end of 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 foreign direct investment 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.

The Group is subject to the effects of high and sustained inflation within the Georgian economy. In the period between 2010 and 2013, according to Geostat, Georgia experienced periods of both inflation and deflation and the rate of inflation also fluctuated greatly. High and sustained inflation could lead to market instability, a financial crisis, a reduction in consumer purchasing power and erosion of consumer confidence. On the other hand, deflation, whilst increasing the purchasing power of the Lari, could adversely affect foreign investment and the Group's profitability in its lending activities. Any of these events could lead to a deterioration in the performance of Georgia's economy and negatively affect the businesses of the Group's customers, which could, in turn, have a material adverse effect on the Group's business, its financial condition and the results of its operations

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

Since the restoration of its independence in 1991, Georgia has undergone a major political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. Georgia has had major recent changes in government and in its constitution and laws, the latter in connection with a transition from a presidential to a parliamentary system of government. The current President (who acts as head of state with only limited powers) and Prime Minister are both from the same party, which won parliamentary elections in 2012 and presidential elections in 2013, sweeping the prior government, which had been in place since 2004, from power.

Continuing economic and political reform are important to the future of Georgia. The previous government and current government have both been committed to reform and to business – and investor-friendly policies, but there can be no assurance that such business – and investor-friendly policies will continue or will not be reversed. While the recent elections and transitions of power have been peaceful, there can be no assurance that future elections will also be peaceful. The next elections to be held in Georgia are municipal elections scheduled for May and June 2014. There can be no assurance that the recent constitutional reforms will be stable, that the government will pursue the necessary reforms or that its policies will not change. Changes in government policy and any political instability may have a material adverse effect on the Group's business, its financial condition and the results of its operations.

Risks Relating to the Group's Lending Activities

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

The quality of the Group's loan portfolio is affected by changes in the creditworthiness of its customers, the ability of customers to repay their loans on time, the statutory priority of claims against customers and the Group's ability to enforce its security interests on customers' collateral should such customers fail to repay their loans and whether the value of such collateral is sufficient to cover the full amounts of those loans. In addition, the quality of the Group's loan portfolio may deteriorate for various other reasons, including factors beyond the Group's control such as any negative developments in Georgia's economy resulting in the financial distress or bankruptcy of the Group's customers or the unavailability or limited availability of credit information concerning certain customers, and other factors, such as a failure of the Group's risk management procedures or a rapid expansion of the Group's loan portfolio. The Group's impairment charges and, in turn, its cost of credit risk, could increase if a single large borrower defaults or a material concentration of smaller borrowers default. There can be no assurance that in the longer term the Group's loan portfolio quality will not deteriorate and that the Group's loan impairment charges will not increase, which could, in turn, have a material adverse effect on the Group's business, its financial condition and the results of its operations.

The Group's loan portfolio for its Corporate Banking segment is somewhat concentrated, with the Group's top 10 corporate borrowers accounting for 16.8% of the Group's total loan portfolio as of 31 December 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

The Group held collateral against 88.6% of the Group's total gross loans as of 31 December 2013. 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. 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 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. If any of these risks materialise, they could have a material adverse effect on the Group's business, its financial condition and the results of its operations.

Significant changes or volatility in the Group's Net Interest Margin could have an adverse effect on the Group

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

A mismatch of interest-earning assets and interest-bearing liabilities in any given period resulting from changes in any of the key factors outlined above, or otherwise, could reduce the Group's NIM. Any reduction in the Group's NIM caused by changes in the key factors outlined above, or otherwise, could have a material adverse effect on the Group's net interest income, which could, in turn, have a material adverse effect on the Group's business, its financial condition and the results of its operations.

In addition, any increase in interest rates may result in an increase in the periodic instalment amounts paid by the Group's customers. Such an increase may result in difficulties related to the repayment of the assumed loans, which, in turn, may lead to a decrease in the quality of the Group's loan portfolio and an increase in impairment provisions for loans extended to the Group's customers, which could, in turn, have a material adverse effect on the Group's business, its financial condition and the results of its 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, is denominated in foreign currencies, primarily US dollars, while the majority of customers who have their loans denominated in foreign currencies earn their income in Lari. Those customers are usually not protected against the fluctuations of the exchange rates of the Lari against the currency of the loan. Consequently, any depreciation of the Lari against the currency of the loan may result in difficulties in repayment of the loans, which, in turn, may lead to a decrease in the quality of the Group's loan portfolio and an increase in impairment provisions for loans extended to the Group's customers, which may have a material adverse effect on the Group's business, its financial condition and the results of its operations.

In addition, the Group's operations are affected by the Lari to Belarusian Rouble exchange rates as these affect the value of the Group's equity interests in Joint Stock Company Belarusky Narodny Bank (BNB), its Belarusian subsidiary, on a consolidated basis and a depreciation of the Belarusian Rouble against the Lari has the effect of reducing BNB's contribution to the Group's consolidated capital. Such changes could affect its ability to comply with contractual covenants based on the Basel I Total Capital Adequacy ratio, calculated on a consolidated basis.

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

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

Additional Risks Arising Principally from the Group's Banking Activities

The Group faces liquidity risk

The Group becomes exposed to liquidity risk when the maturities of its assets and liabilities do not coincide. Liquidity risk is inherent in banking operations and can be heightened by a number of factors, including an overreliance on, or an inability to access, a particular source of funding, changes in credit ratings or market-wide phenomena such as financial market instability and natural disasters. Substantially all of the Group's amounts due to customers have maturities of one year or less or are payable on demand. 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.

In addition, the Group is exposed to the risk of unexpected, rapid withdrawal of deposits by its customers in large volumes. Circumstances in which customers are more likely to rapidly withdraw deposits in large volumes include, among others, a severe economic downturn, a loss in consumer confidence, an erosion of trust in financial institutions or a period of social, economic or political instability. If a substantial portion of the Group's customers rapidly or unexpectedly withdraw their demand or term deposits or do not roll over their term deposits upon maturity, this could have a material adverse effect on the Group's business, its financial condition and the results of its operations.

The Group is subject to certain regulatory capital requirements

The Bank, in common with other regulated financial institutions in Georgia, is required to comply with certain capital adequacy and regulatory ratios set by the NBG. The Bank believes it is currently in compliance with all such ratios.

In December 2010, the Basel Committee on Banking Supervision published the Basel III rules setting out certain changes to capital requirements applicable to banks. Implementation of the new combined regulation based on Basel II and Basel III will occur at a national level in 2014. The NBG is currently in the process of implementing Basel II and Basel III in Georgia. On 28 October 2013, the NBG published a 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 BII and BIII on 30 June 2014 for Pillar I and 30 September 2014 for Pillar II.

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. BNB has not been in compliance with 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 and had received a temporary waiver in respect of this breach. As of 31 March 2014, BNB was in compliance with the minimum capital requirements set by NBRB however, there is no assurance that BNB will be able to comply with the minimum level of regulatory capital in the future that it will be able to obtain a further waiver from the NBRB thereafter.

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:

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

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

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

The Group may be unable to enforce, or may experience difficulties and delays in enforcing, the security which has been granted to it by its customers. For example, the Parliament has in the recent past established, or considered establishing, moratoriums or restrictions on enforcement measures over certain properties that are secured as collateral in financing transactions. Any of these actions, and any future changes to laws or regulations, may restrict the ability of the Group to enforce security granted by its customers and may otherwise impair the value of such collateral, which in turn may result in illiquidity of the collateral, increase of credit risk and emergence of bad loans and may have negative effects on the economy and the Georgian banking sector, including the Bank. Furthermore, such legislative changes may decrease the inflow of foreign investments in Georgia, which could have a negative effect on the economy, which could, in turn, have a material adverse effect on the Group's business, financial condition and results of operations. If any of these risks materialise, they could have a material adverse effect on the Group's business, its financial condition and the results of its operations

In addition, the current Georgian Dream coalition government is 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 decision adopted in the beginning of 2014 to establish a state insurance company to provide a basic insurance package for every Georgian citizen, could have a material impact on the business, financial condition and results of operations of the Group in general, and on the Group's insurance and healthcare subsidiary Aldagi in particular.

The corporate income tax rate in Georgia is 15%. Under the Economic Liberty Act which entered into force on 1 January 2014, subject to certain exceptions, referenda are required to be held before raising taxes and tax rates. However, no assurance can be given that there will not be a future increase in corporate income tax in Georgia. Any significant increase in the rate of corporate income tax in Georgia or other changes in taxation policy could have a material adverse effect on the Group's business, its financial condition and the results of its operations.

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. There can be no assurance that the current regulatory environment in which the Group operates will not be subject to significant change in the future, including as a result of a change in government in Georgia or Belarus, or that the Group will be able to comply with any or all resulting regulations.

The Group is subject to operational risk inherent in its business activities, which includes the risk that the Group is highly dependent on its information technology systems and is subject to the risk of cyber attacks
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.

The Group's operations are highly dependent on its information technology systems. The proper functioning of the Group's payment systems, financial controls, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks within the Group, are critical to the Group's operations. Any critical system failure, prolonged loss of service availability or material breach of data security (particularly involving confidential customer data) could cause serious damage to the Group's ability to service its customers, could result in significant compensation costs, could breach regulations under which the Group operates and could cause long-term damage to the Group's business and brand. For example, failure to protect the Group's operations from cyber attacks could result in the loss of customer data or other sensitive information. The threats are increasingly sophisticated and there can be no assurance that the Group will be able to prevent all threats.

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, its financial condition and the results of its operations.

Risks Affecting the Group's Non-Banking Activities

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

The failure 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.

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 adverse effect on the Group's business, its financial condition and the results of its operations.

The Government of Georgia undertook a range of new initiatives relating to the regulation of healthcare in Georgia. In 2013, under the state-funded Universal Health Care Programme (the Healthcare Programme), the Government has begun to provide a basic insurance package for every Georgian citizen not already covered by any insurance, including certain vulnerable groups such as pensioners, students and children already covered by the Healthcare Programme in place since 2007. The coverage of the groups described above under the Healthcare Programme is currently provided through private insurance companies. In 2014, the Government announced its intention to establish a state insurance company to provide basic universal healthcare coverage for Georgian citizens (rather than through private insurance companies), under the Government's Healthcare Programme.

The Group's insurance subsidiary, Aldagi, currently provides Government-funded insurance coverage to certain groups, such as the socially vulnerable, pensioners, students and children that fall under the Healthcare Programme. The establishment of a state insurance company to provide basic insurance coverage for all citizens of Georgia will result in the elimination in the Government-funded insurance policies that Aldagi provides thereby reducing Aldagi's revenues.

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

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

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

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

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

Any of these factors could have a material adverse effect on the financial condition and operating results of m2 Real Estate, which may have a material adverse effect on the Group's business, its financial condition and the results of its 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. The Group intends to exit from its other non-core operations, including through the sale of Joint Stock Company Liberty Consumer (Liberty Consumer), its remaining equity interest in BG Bank and, in due course, its interest in BNB. In addition, from time to time, the Group may seek to pursue selective acquisitions in Georgia and abroad.

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

The Group faces competition

In recent years the Georgian banking sector has become increasingly competitive. According to the NBG, at 31 December 2013, there were 21 commercial banks operating in Georgia, 20 of which are foreign controlled. Additionally, in Belarus, the Group competes with a wide range of local (including state-owned) and international banks.

Increased competition may have a negative impact on the Group's ability to sustain its margin and fee levels, particularly if the Group's competitors possess greater financial resources (especially in the case of banks with foreign capital investment or banks which are branches or subsidiaries of non-resident foreign banks, by way of access to funding from foreign capital or their parent entity), access to lower-cost funding and a broader offering of products than the Group, or if the Group's competitors merged to significantly enhance their financial resources, access to funding and product offerings. In addition, increasing competition could lead to significant pressure on the Group's market share. Increasing competition in the banking industry has already led to and may, in the future, continue to lead to increased pricing pressures on the Group's products and services, which could have a material adverse effect on the Group's business, financial condition and results of operations.

There can be no assurance that the current regulatory environment in which the Group operates with respect to competition and anti-monopoly matters will not be subject to significant change in the future. Anti-monopoly matters with respect to the banking services sector are currently handled by the NBG. However, the Georgian Government may, in the future, seek to legislate or regulate competition and anti-monopoly matters in the Georgian banking industry through a Governmental agency other than the NBG. The introduction of any anti-monopoly restrictions may have an effect on the growth rates of the Group, restrict the Group's ability to make future acquisitions or lead to the Group being compulsorily required to sell some of its assets or exit or reduce business areas.

The Group depends on its key management and qualified personnel

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

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

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

The Group faces certain risks associated with conducting international operations

The Group's financial results have in the past been adversely affected by write-downs of goodwill associated with its investments in Joint Stock Company BG Bank (BG Bank) and BNB, as well as the weak economic environment in Ukraine and a material devaluation of the Belarusian Rouble. As part of its revised strategy to concentrate on the Georgian market the Group disposed of an 80% equity interest in BG Bank in February 2011. The Group will continue to seek to exit from its international operations (including its remaining equity interest in BG Bank and, in due course, BNB) at an appropriate time. While it holds these assets, the Group will continue to be subject to risks relating to these operations, including certain political and economic risks, compliance risks and foreign currency exchange risks, as well as the risk of failure to market adequately to potential customers in other countries Any failure to manage such risks may cause the Group to incur increased liabilities, which could, in turn, have a material adverse effect on the Group's business, its financial condition and the results of its operations.

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

The Group is subject to Georgian, foreign and international laws, regulations and practices relating to, among other things, money laundering, terrorist financing and tax compliance. The Group has implemented comprehensive anti-money laundering, "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). However, if the Group fails to comply with any such laws and regulations, this could have a material adverse effect on the Group's business, its financial condition and the results of its operations. In addition, involvement in such activities may carry criminal or regulatory fines and sanctions.

The Group is also subject to the US Foreign Account Tax Compliance Act (FATCA). As foreign financial institutions for purposes of FATCA, from 1 July 2014, entities within the Group will be subject to a 30%. US withholding tax on certain types of income derived from US sources (including interest and dividends) unless the members of the Group become participating foreign financial institutions or are otherwise deemed compliant with FATCA. While the Group believes that its preparations and options are sufficient to ensure compliance by the Group with FATCA, if entities within the Group suffer FATCA withholding on payments to them, this may have a material adverse effect on the Group's business and, in turn, on its financial condition and the results of its operations.

Other Risks Relating to Emerging Markets

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

Georgia is still developing an adequate legal framework required for the proper functioning of a market economy. 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 its judges are generally less experienced in the area of business and corporate law than is the case in certain other countries. The uncertainties of the Georgian judicial system could have a negative effect on the Georgian economy, which could, in turn, have a material adverse effect on the Group's business, financial condition and operational results. In addition, to varying degrees, the same uncertainties of the judicial system in Georgia as discussed above apply to Belarus.

Uncertainties in the tax system in Georgia and Belarus 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 and Belarus, tax laws have not been in force for significant periods of time, are often unclear in their implementation and application and are subject to frequent changes, which results in complexities for the Group. 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. 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. 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.

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

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.

Liquid assets* to total liabilities
2012: 35.3%

36.4%

Liquid assets* to total assets
2012: 28.7%

29.5%

* Liquid assets include: cash and cash equivalents, amounts due from credit institutions, investment securities and trading securities.

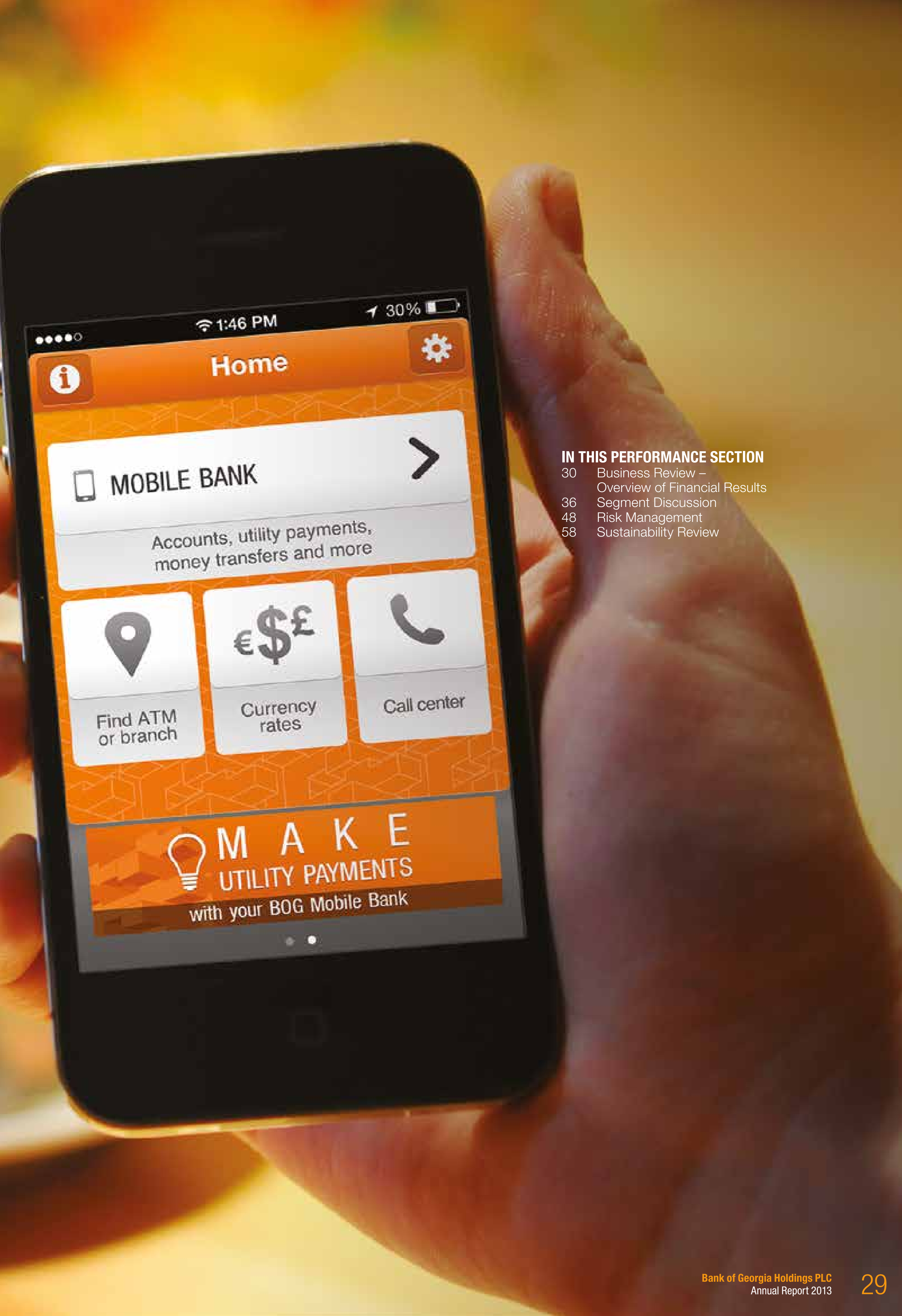
STRENGTH THROUGH DIVERSITY

AT THE FOREFRONT OF TECHNOLOGY

EXPRESS TECHNOLOGIES

54,105
Internet banking active users

14,232
Mobile banking active users



IN THIS PERFORMANCE SECTION

CONTINUED EXECUTION OF OUR STRATEGY

For more information on our risk management, see page 48

Consolidated Results Discussion

The following discussion may not contain all of the information that is important to readers of this Annual Report. The entirety of this Annual Report should be read for a more complete understanding of the events, risks and uncertainties affecting the Group, including liquidity, market, credit and operational risks.

Consolidated Summary Income Statement

This summary compares the financial results for the year ended 31 December 2013 to the year ended 31 December 2012.

The Group reported full year 2013 record profit of GEL 209.3 million, a 16.6% increase compared to the prior year. The 2013 performance reflects the strong profitability maintained during the year on the back of significantly reduced Cost of Funding and improved efficiency across the business. As a result, the Group posted a Return on Average Equity (ROAE) of 18.6%, translating into the earnings per share growth of 13.6% to GEL 5.93 per share, which compares to GEL 5.22 per share in 2012.

The Group's 2013 revenue growth of 9.5% to a record revenue of GEL 545.5 million was driven by both strong net interest income and non-interest income growth, predominantly a result of solid performance of Aldagi, the Group's Insurance and Healthcare business. The contribution of Insurance and Healthcare revenue to total revenue increased from 11.5% in 2012 to 12.4% in 2013, which is in line with management's strategy to diversify its revenue sources.

The 10.6% year-on-year growth of a net interest income was primarily a result of a 7.9% decline in interest expense and a 1.1% increase in interest income reflecting the subdued loan book growth in the first nine months of year. The considerable decline in interest expense was primarily attributed to the reduction in Cost of Funding to 5.9% in 2013 from 7.3% in 2012, in line with the Group's strategy of optimising its funding costs. The main driver of the decline of interest expense, the Group's Cost of Deposits (amounts due to customers), was reduced by 170 bps to 5.6% in 2013 compared to the prior year following the reduction of contractual deposit rates on one year US Dollar deposits by 300 basis points on the back of continuous inflow of deposits. The reduction of funding costs compares with a relatively moderate decline in Loan Yields that were reduced from 17.5% in 2012 to 16.2% in 2013.

NIM remained broadly flat in 2013 at 7.8% in 2013 compared to 7.9% in 2012, reflecting the effect of a 140 bps decline in the cost of funding on the back of 130 bps decline in the Loan Yield during the same period and the 52.3% year-on-year increase in excess liquidity. The increase in average liquid assets and excess liquidity, high levels of which were maintained throughout the year, was predominantly a result of the US$150 Eurobond tap issue in November 2013. The proceeds from the Eurobonds have not yet been deployed into funding loans, significantly increasing the liquidity pool.

Income Statement Summary

GEL thousands, unless otherwise noted	31 Dec 2013	31 Dec 2012	Change year-on-year
Net interest income	314,096	284,117	10.6%
Net non-interest income	231,358	214,138	8.0%
Revenue	545,454	498,255	9.5%
Operating expenses	(225,565)	(221,152)	2.0%
Operating income before cost of credit risk	319,889	277,103	15.4%
Cost of credit risk	(61,802)	(44,717)	38.2%
Net operating income	258,087	232,386	11.1%
Net non-operating expense	(12,831)	(19,634)	-34.6%
Net loss from discontinued operations	245,256	212,752	15.3%
Profit	209,343	179,552	16.6%
Selected financial statistics			
Basic Earnings Per Share	5.93	5.22	
ROAA (Return on Average Assets)	3.6%	3.5%	
ROAE (Return on Average Equity)	18.6%	19.1%	
Dividends per ordinary share, GEL	2.0[1]	1.5	
GEL/USD exchange rate, period end	1.7363	1.6567	
GEL/GBP exchange rate, period end	2.8614	2.6653	

1. To be approved by shareholders at the 2014 AGM.

The NBG's newly introduced transitional additional liquidity requirement relating to non-resident deposits resulted in a GEL 118.3 million decline in excess liquidity in 2013. The NBG introduced an updated liquidity model for a transition period starting 1 July 2013, as the NBG moves towards a new liquidity framework based on Basel III Liquidity Coverage ratio (LCR) with some modifications taking into account specifics about the Georgian banking system. Before the full introduction of LCR, the NBG applies an additional liquidity requirement for non-resident deposits that are in excess of 10% of the total deposits of a bank.

The Group's diversified revenue sources are reflected in its net non-interest income that reached its record GEL 231.4 million, accounting for 42.4% of the Group's revenue in 2013. The 8.0% growth of the net non-interest income predominantly reflects the robust performance of Aldagi, the Group's insurance and healthcare business, which posted a combined net revenue of GEL 67.7 million in 2013, up 17.8% year-on-year. Net insurance premiums earned increased by 42.6%, with growth coming from all lines of insurance business, particularly health insurance, which saw particularly strong growth as the Group expanded into the healthcare business. Net insurance claims incurred also increased 48.4% in 2013 as a result of the growth of business. The strong performance of the Aldagi Healthcare business was impacted by the higher growth rate of healthcare costs compared to healthcare revenue during the year. This was partially attributed to the lower revenue streams as the roll-out of new hospitals was completed in the middle of the year. In addition, certain accounting reclassifications, resulting in additional depreciation and utility expenses, were included in the cost of healthcare services in 2013, which in prior years were included in operating expenses.

Net fee and commission income results reflect the slow-down in the economic activity of the Group's clients across guarantees and letters of credit and brokerage advisory businesses. In addition, the high client acquisition rate within the Express Banking strategy in 2013, especially through the popularity of its Express Card a contactless travel card linked to a current account and its newly introduced Express Merchant service contributed to the exceptionally high fee and commission expense, contributing to the relatively low growth of 0.5% of net fee and commission income for 2013.

Revenue

GEL thousands, unless otherwise noted	31 Dec 2013	31 Dec 2012	Change year-on-year
Loans to customers	522,847	509,339	2.7%
Investment securities[1]	35,371	33,950	4.2%
Amounts due from credit institutions[2]	8,423	15,813	-46.7%
Finance lease receivables	7,466	8,701	-14.2%
Interest income	**574,107**	567,803	1.1%
Amounts due to customers	(159,028)	(202,484)	-21.5%
Amounts due to credit institutions, of which:	(100,585)	(79,492)	26.5%
Eurobonds	(35,424)	(16,010)	121.3%
Subordinated debt	(22,394)	(21,883)	2.3%
Loans and deposits from other banks	(42,767)	(41,599)	2.8%
Interest expense	**(259,613)**	(281,976)	-7.9%
Net interest income before interest rate swaps	**314,494**	285,827	10.0%
Net loss from interest rate swaps	(398)	(1,710)	-76.7%
Net interest income	**314,096**	284,117	10.6%
Net fee and commission income	**86,896**	86,487	0.5%
Net insurance revenue	**45,333**	34,138	32.8%
Net healthcare revenue[3]	**22,369**	23,346	-4.2%
Other operating non-interest income	**76,760**	67,218	14.2%
Revenue adjusted for one-off FX gain[4]	**545,454**	495,306	10.1%
One-off FX gain	–	2,949	-100.0%
Revenue	**545,454**	498,255	9.5%

1. Primarily consist of Georgian Government treasury bills and bonds and National Bank of Georgia's Certificates of Deposits (CDs).
2. Time deposits with credit institutions with less than 90 days maturity are included in cash and cash equivalents.
3. For net healthcare revenue disclosures, see the Insurance and Healthcare segment discussion.
4. One-off foreign currency gain by BNB.

Net Interest Margin

GEL thousands, unless otherwise noted	31 Dec 2013	31 Dec 2012	Change year-on-year
Net interest income	314,096	284,117	10.6%
Net Interest Margin	**7.8%**	**7.9%**	
Average interest earning assets[1]	4,037,894	3,614,921	11.7%
Average interest bearing liabilities[1]	4,382,341	3,904,874	12.2%
Average liquid assets[1]	1,593,651	1,386,963	14.9%
Excess liquidity NBG[2] (excl. additional liquidity requirement for non-resident depositors)	655,392	352,675	85.8%
Additional liquidity requirement for non-resident depositors	(118,285)	–	NMF
Excess liquidity (NBG)[2]	537,107	352,675	52.3%
Loan Yield	16.2%	17.5%	
Cost of Funding	5.9%	7.3%	

1. Monthly averages are used for calculation of average interest earning assets, average interest bearing liabilities and average liquid assets.
2. 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.

Net non-interest income

GEL thousands, unless otherwise noted	31 Dec 2013	31 Dec 2012	Change year-on-year
Net fee and commission income	86,896	86,487	0.5%
Net insurance revenue	45,333	34,138	32.8%
Net healthcare revenue	22,369	23,346	-4.2%
Other operating non-interest income	76,760	70,167	9.4%
Net non-interest income	**231,358**	**214,138**	**8.0%**

The 14.2% increase in other operating non-interest income, adjusted for last year's one-off FX gain by BNB, was driven by an increase in the net gain from trading and investment securities, which as of 31 December 2013 mostly consisted of NBG CDs, government treasury bills and bonds. Other operating income increased primarily due to an increase of net revenue from the sale of goods of the Bank's non-banking subsidiaries, m2 Real Estate and Teliani Valley, a leading Georgian wine-maker.

The Group successfully continued to deliver positive operating leverage as management remains focused on keeping a tight grip on costs. Operating expenses increased 2.0% to GEL 225.6 million, which significantly lags behind the revenue growth rate of 9.5%. As a result, operating leverage stood at 7.5 percentage points in 2013, marking the fourth consecutive year of positive operating leverage. The growth in operating expenses was primarily fuelled by a 10.2% growth in salaries and other employee benefits to GEL 135.1 million following an increase in headcount by more than 600 employees in 2013 to service the growth of business of the Bank's subsidiaries. Benefiting from the success of the Express Banking strategy that aims to boost transactional banking using IT technologies, Bank of Georgia's headcount on a stand-alone basis, declined by 4.3% to 3,574 employees as of 31 December 2013.

Efficiency gains and various cost containment measures throughout the year, led to the 10.0% decline in general and administrative expenses to GEL 60.4 million in 2013. As a result of the foregoing, the Cost to Income ratio fell to a record low 41.4% compared to 44.4% in 2012.

The Group's operating income before the cost of credit risk increased by 15.4% to GEL 319.9 million in 2013.

The cost of credit risk increased to GEL 61.8 million in 2013 from GEL 44.7 million in 2012, largely reflecting impairment charges related to both the Retail Banking and Corporate Banking loan portfolios, translating into a Cost of Risk of 1.4% for the year. The Cost of Risk improved markedly in Q4 2013 (to an annualised 0.9% from 1.8% in Q4 2012 and 1.6% in Q3 2013), as a result of lower impairment charges as well as higher recoveries compared to 2012.

Net operating income

GEL thousands, unless otherwise noted	31 Dec 2013	31 Dec 2012	Change year-on-year
Salaries and other employee benefits	(135,065)	(122,556)	10.2%
General and administrative expenses	(60,364)	(67,041)	-10.0%
Depreciation and amortisation expenses	(26,572)	(28,606)	-7.1%
Other operating expenses	(3,564)	(2,949)	20.9%
Operating expenses	**(225,565)**	**(221,152)**	**2.0%**
Operating income before cost of credit risk	**319,889**	**277,103**	**15.4%**

Cost of credit risk

GEL thousands, unless otherwise noted	31 Dec 2013	31 Dec 2012	Change year-on-year
Impairment charge on loans to customers	(41,499)	(39,186)	5.9%
Impairment charge on finance lease receivables	(2,809)	(495)	NMF
Impairment reversal (charge) on other assets and provisions	(17,494)	(5,036)	NMF
Cost of credit risk	**(61,802)**	**(44,717)**	**38.2%**
Net operating income	**258,087**	**232,386**	**11.1%**

Profit before income tax expense and profit

GEL thousands, unless otherwise noted	31 Dec 2013	31 Dec 2012	Change year-on-year
Net non-operating expenses	(12,831)	(19,634)	-34.6%
Profit before Income tax expense	**245,256**	**212,752**	**15.3%**
Income tax expense	(35,913)	(33,200)	8.2%
Profit	**209,343**	**179,552**	**16.6%**

The Group's NPLs, defined as the principal and interest on loans overdue for more than 90 days and additional potential loss estimated by management, increased by GEL 18.6 million in 2013 and totalled GEL 144.9 million, reflecting a lower level of write-offs during the year. The NPL coverage ratio stood at 83.8% as of 31 December 2013 compared to 87.5% as of 31 December 2012. The NPL Coverage ratio (adjusted for the discounted value of collateral) stood at 110.6% as of 31 December 2013, compared to 112.7% a year before.

The Group's net operating income totalled GEL 258.1 million, up 11.1% year-on-year. In 2013, the Group's net non-operating expenses declined to GEL 12.8 million from GEL 19.6 million in 2012, reflecting the absence of tender offer and premium listing fees incurred in 2012.

As a result of the foregoing, profit before income tax in 2013 totalled GEL 245.3 million, an increase of GEL 32.5 million, or 15.3% year-on-year. After income tax expense of GEL 35.9 million, the Group's profit for the period stood at GEL 209.3 million, up 16.6%.

Balance sheet summary

The Group's balance sheet remains well capitalised and highly liquid. Client deposits and amounts due to credit institutions (which includes our Eurobond issuance), were the main source of funding of the 15.3% year-on-year growth of total assets in 2013. Remarkably (especially, as regards to deposits), the increase in liabilities was achieved in an environment of declining funding rates, resulting in a significant reduction of funding costs.

As of 31 December 2013, the Group's total assets stood at GEL 6,521.0 million, an increase of 15.3% since 31 December 2012. In addition to the loan book, the growth in total assets reflects growth in liquid assets, up by GEL 297.4 million following the issuance of the Eurobonds, the proceeds from which have not yet been fully deployed in loans.

The main driver of the asset growth for the period was a GEL 430.6 million (13.9% year-on-year) loan book growth, as the demand for credit picked up in Q4 2013. Retail Banking loan book growth, which was consistent throughout the year, reached GEL 1,612.9 million, up 19.6% year-on-year, while the demand for corporate credit, which was subdued in the first nine months of the year, picked up in Q4 2013, gaining 8.6% quarter-on-quarter.

Client deposits, which accounted for 58.8% of the Group's total liabilities, grew by 18.5% year-on-year to their record level of GEL 3,107.2 million at the same time as their cost was reduced by 170 bps to 5.6%. The Bank reduced its contractual interest rates significantly, bringing rates on the one year term US Dollar denominated deposits from 8% at the beginning of the year down to 5% since June 2013.

Our strong focus on liability management throughout the period also enabled us to reduce the cost of amounts due to credit institutions by 60 bps to 6.6% as the Group repaid some of its more costly subordinated borrowings. The issuance of lower cost Eurobonds in November 2013 was the main cause of the overall increase in amounts due to credit institutions, which grew by 13.8% to GEL 1,886.1 million.

The Bank's Book Value per share on 31 December 2013 stood at GEL 34.85 (US$20.07/£12.18) compared to GEL 30.33/(US$18.31/£11.38) as of 31 December 2012.

Balance Sheet highlights

GEL thousands, unless otherwise noted	31 Dec 2013	31 Dec 2012	Change year-on-year
Cash and cash equivalents	1,053,671	762,827	38.1%
Amounts due from credit institutions	347,261	396,559	-12.4%
Investment securities	519,623	463,960	12.0%
Loans to customers	3,522,915	3,092,320	13.9%
Investments in associates	–	2,441	-100.0%
Investment property	157,707	160,353	-1.7%
Property and equipment	470,669	430,877	9.2%
Goodwill	48,720	45,657	6.7%
Intangible assets	26,434	23,078	14.5%
Income tax assets	19,096	15,296	24.8%
Prepayments	25,534	41,147	-37.9%
Other assets	329,339	221,080	49.0%
Total assets	**6,520,969**	**5,655,595**	**15.3%**
Amounts due to customers, of which:	3,117,732	2,693,025	15.8%
Client deposits	3,107,209	2,622,911	18.5%
Promissory notes	10,523	70,114	-85.0%
Amounts due to credit institutions	1,886,096	1,657,162	13.8%
Income tax liabilities	69,028	60,002	15.0%
Provisions	481	683	-29.6%
Other liabilities	206,578	185,211	11.5%
Total liabilities	**5,279,915**	**4,596,083**	**14.9%**
Share capital	1,028	957	7.4%
Additional paid-in capital	23,843	14,767	61.5%
Treasury shares	(56)	(69)	-18.8%
Other reserves	(16,399)	14,097	NMF
Retained earnings	1,174,124	981,322	19.6%
Non-controlling interests	58,514	48,438	20.8%
Total equity	**1,241,054**	**1,059,512**	**17.1%**
Total liabilities and equity	**6,520,969**	**5,655,595**	**15.3%**
Loan Yield	16.2%	17.5%	
Cost of Funds	5.9%	7.3%	
Cost of Client Deposits	5.6%	7.3%	
Liquid assets as percentage of total assets	29.5%	28.7%	
Liquid assets as percentage of total liabilities	36.4%	35.3%	
NBG Liquidity ratio	45.7%	41.1%	
Leverage (times)	4.3	4.3	

Currency denomination of selected balance sheet items

	GEL			FC		
GEL thousands, unless otherwise noted	31 Dec 2013	31 Dec 2012	Change year-on-year	31 Dec 2013	31 Dec 2012	Change year-on-year
Loans to customers, net	1,231,207	978,773	25.8%	2,291,708	2,113,547	8.4%
Amounts due to customers, of which:	997,573	822,248	21.3%	2,120,159	1,870,777	13.3%
Client deposits	997,573	821,404	21.4%	2,109,636	1,801,507	17.1%
Promissory notes	–	844	-100.0%	10,523	69,270	-84.8%

De-dollarisation of both sides of the balance sheet remained one of the top priorities for management in 2013. The deposit rate cuts, as well as helping to bring down cost of funds, supported efforts to de-dollarise the Bank's liabilities. The cuts were more pronounced on US Dollar denominated deposits, resulting in a widening differential between GEL and US Dollar denominated deposits encouraging a growth of GEL savings. Although the 4.8% downward correction of GEL versus US Dollar in 2013 remained a stimulus for the purposes of de-dollarising liabilities, the differential nevertheless led to a faster growth of GEL denominated client deposits compared to foreign currency deposits growth for the period (21.4% compared to 17.1%, respectively).

Following targeted measures to de-dollarise the asset side of the balance sheet, Lari denominated loans increased 25.8% compared to an 8.4% increase in foreign currency denominated loans in 2013. The Lari denominated growth rate was positively impacted by the NBG's Lari lending support programme. The programme entails providing financing to Georgian banks for GEL denominated loans linked to the refinancing rate. In 2013, the Bank issued GEL 27.0 million Lari denominated mortgages under the NBG programme and SME loans, which contributed strongly to the increase of the share of GEL denominated loans in total loans from 31.7% in 2012 to 34.9% in 2013.

Liquidity, funding and capital management

GEL thousands, unless otherwise noted	31 Dec 2013	31 Dec 2012	Change year-on-year
Amounts due to credit institutions, of which:	1,886,096	1,657,162	13.8%
Eurobonds	728,117	420,849	73.0%
Subordinated debt	168,710	208,244	-19.0%
Other amounts due to credit institutions	989,269	1,028,069	-3.8%
Customer Funds, of which:	3,117,732	2,693,025	15.8%
Client deposits, of which:	3,107,209	2,622,911	18.5%
CDs	221,539	–	–
Promissory notes	10,523	70,114	-85.0%
Net Loans/Customer Funds	113.0%	114.8%	
Net Loans/Customer Funds + DFIs	96.2%	91.9%	
Liquid assets	**1,921,704**	**1,624,317**	**18.3%**
Liquid assets as percent of total assets	29.5%	28.7%	
Liquid assets as percent of total liabilities	36.4%	35.3%	
NBG Liquidity ratio	45.7%	41.1%	
Excess liquidity NBG (excluding additional liquidity requirement for non-resident depositors)	655,392	352,675	85.8%
Additional liquidity requirement for non-resident depositors	(118,285)	–	
Excess liquidity NBG	537,107	352,675	52.3%

The Group's liquidity position remained well above regulatory requirements in 2013. The Group's liquidity ratio, as per the requirements of the NBG, stood at 45.7% against a required minimum of 30%, while liquid assets, (comprising of cash and cash equivalents, amounts due from credit institutions and investment securities) accounted for 29.5% of total assets and 36.4% of total liabilities.

The increase in liquidity was primarily due to the additional Eurobond issuance in November 2013, which significantly contributed to the increased liquidity pool as the proceeds from the Eurobonds have not yet been deployed in funding loans.

Effective 1 July 2013, the NBG introduced a transitional amendment to its existing liquidity ratio, imposing additional liquidity requirements relating to non-resident deposits. As of 31 December 2013, the additional impact on liquidity due to this transitional regulation amounted to GEL 118.3 million.

Capital adequacy, BIS

GEL thousands, unless otherwise noted	31 Dec 2013	31 Dec 2012	Change year-on-year
Tier I Capital	1,170,104	1,006,756	16.2%
Tier II Capital	256,224	284,677	-10.0%
Total Capital	1,375,181	1,242,736	10.7%
Risk weighted assets	5,080,827	4,749,484	7.0%
Tier I Capital Adequacy ratio (BIS)	23.0%	21.2%	
Total Capital Adequacy ratio (BIS)	27.1%	26.2%	

Capital adequacy, NBG

GEL thousands, unless otherwise noted	31 Dec 2013	31 Dec 2012	Change year-on-year
Tier I Capital	810,545	739,880	9.6%
Tier II Capital	313,220	389,685	-19.6%
Total Capital	867,294	866,949	0.0%
Risk weighted assets	5,638,556	5,352,187	5.4%
Tier I Capital Adequacy ratio (NBG)	14.4%	13.8%	
Total Capital Adequacy ratio (NBG)	15.4%	16.2%	

The composition of the Group's balance sheet reflects its aim to maintain a diversified funding base, while optimising funding costs. Net Loans/Customer Funds ratio stood at 113.0% as of 31 December 2013, compared to 114.8% as of 31 December 2012. Net Loans/Customer Funds and Development Finance Institutions (DFIs) however increased by 4.3 percentage points to 96.2%, as a result of a pick-up in lending and the repayment of selected loans from DFIs following the Eurobond issuance in November 2013. Borrowed funds from DFIs made up 10.3% of total liabilities, down from 14.6% as a result of repayment of subordinated loans.

The Bank ended the year with a particularly strong capital position with a robust Tier I Capital ratio (BIS) of 23.0%. This is a further improvement from the 21.2% Tier I Capital ratio as of 31 December 2012. The NBG Capital ratios were mainly affected by net income, dividend payment and the repayment of costly subordinated loans.

The NBG approved and published a new capital adequacy regulation on 28 October 2013. Pillar I requirements become effective 30 June 2014, although reporting under the new regulation is effective 1 January 2014. Pillar II (ICAAP) requirements shall become effective 30 September 2014. A transition period is due to continue through 1 January 2017, during which the Bank will be required to comply with both, the new, as well as the old, capital regulations of the NBG. The new capital regulation is based on Basel II/III requirements, adjusted for the NBG's discretionary items. The Bank has been already calculating its capital adequacy in compliance with the new regulation since 2013. The Bank sees no particular risks associated with the new regulation and the transition period and it expects its absolute capital requirement to stay materially unchanged or even slightly reduced.

Key differences between BIS and NBG capital regulations are summarised below:

- BIS is based on Bank of Georgia Group consolidated audited IFRS numbers, while NBG is based on Bank stand-alone unaudited numbers per NBG standards.
- Per NBG standard, 175% total risk weighting (including both credit risk and market risk) is applied to loans denominated in foreign currency (with an exception for export-related income of a borrower), while a maximum of 100% total risk weighting is applied to such loans under Basel.
- Current year profit per the NBG standard is part of Tier II Capital and moves to Tier I Capital at the start of the next year, while per BIS, current year profit is part of total retained earnings and, therefore, included in Tier I of current year.

RETAIL BANKING

For more information on our business model, see page 14

RETAIL BANKING POSTED REVENUE OF GEL 267.1 MILLION, UP 8.4% YEAR-ON-YEAR AND PROFIT OF GEL 100.9 MILLION IN 2013, DOWN 0.6% YEAR-ON-YEAR, CONTRIBUTING 48.4% AND 48.2% OF THE GROUP'S TOTAL REVENUE AND PROFIT, RESPECTIVELY.

The growth was primarily driven by a 10.0% growth in net interest income reflecting the combination of 19.6% year-on-year growth in Retail Banking net loans with a 160 bps decline in retail Loan Yields. Retail Banking Cost of Deposits declined by 80 bps to 5.3% in 2013 as a result of a reduction in contractual rates. The relatively slow growth of Retail Banking's net fee and commission income in 2013 was mostly due to the increase in fee and commission expenses associated with the new client acquisition in line with the expansion of Express Banking strategy. The Express Banking strategy continued to boost the growth of current account balances, which increased 45.7% year-on-year or by GEL 89.6 million to GEL 285.7 million in 2013 and over 190,000 clients were added during 2013.

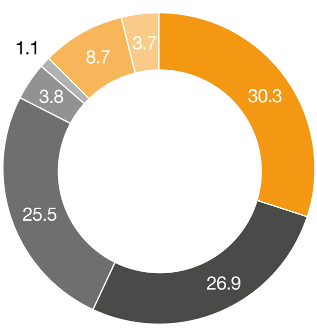
Cost of credit risk increased from GEL 12.5 million in 2012 to GEL 29.2 million in 2013 placing a downward pressure on Retail Banking profit, which amounted to GEL 100.9 million, down by 0.6% year-on-year. However, Retail Banking cost of credit risk showed signs of improvement in Q4 2013, with lower impairments during the quarter.

Bank of Georgia is the largest Retail Banking services provider in Georgia, offering a wide range of products and services including consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services and handling customer multicurrency deposits for both individuals and legal entities. In order to better serve the needs of our customers, in addition to the traditional banking services, Retail Banking offers differentiated products and services through the well-recognised Solo Banking, a premier banking service and recently launched Express Banking service, which aims to expand transactional banking coverage through various distance channels. Retail Banking serves over 1.2 million customers through 202 branches, 496 ATMs and 985 Express Pay Terminals. Retail Banking also encompasses SMEs and micro businesses, serving approximately 100,000 small and medium size companies.

Financial performance

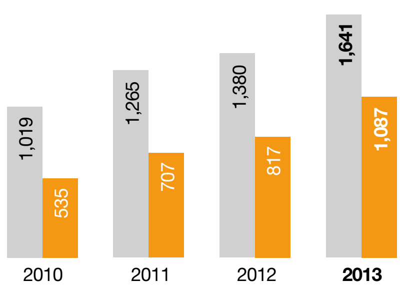
GEL thousands, unless otherwise noted	31 Dec 2013	31 Dec 2012	Change year-on-year
Net interest income	191,851	174,360	10.0%
Net fee and commission income	54,025	53,563	0.9%
Net gain from foreign currencies	16,308	14,985	8.8%
Other operating non-interest income	4,896	3,365	45.5%
Revenue	**267,080**	**246,273**	**8.4%**
Operating expenses	(120,322)	(109,041)	10.3%
Operating income before cost of credit risk	**146,758**	**137,232**	**6.9%**
Cost of credit risk	(29,172)	(12,482)	133.7%
Net non-operating expenses	(2,200)	(6,828)	-67.8%
Profit before income tax expense	**115,386**	**117,922**	**-2.2%**
Income tax expense	(14,468)	(16,392)	-11.7%
Profit	**100,918**	**101,530**	**-0.6%**
Net loans, stand-alone	1,612,942	1,348,331	19.6%
Client deposits, stand-alone	1,086,607	816,709	33.0%
Loan Yield	19.8%	21.4%	
Cost of Deposits	5.3%	6.1%	
Cost to Income ratio	45.1%	44.3%	

Retail Banking gross loans, stand-alone, 2013



- SME and Micro Loans
- Mortgage Loans
- Consumer Loans
- POS Loans
- Automobile Loans
- Credit Cards and Overdrafts
- Pawn Loans

Retail Banking gross loan and deposit growth, stand-alone, GEL million



- Retail Banking gross loans
- Retail Banking deposits

2013 Highlights

- Launched Express Merchant service within its wider franchise of Express Banking service. Express Merchant is aimed at small retailers that do not offer card payments in their stores. Express Merchant service offers these retailers a simple, low cost tablet payment system (tablet POS) as well as a wide range of attractive services tied to this tablet. This service, apart from helping the Bank to expand its footprint on the SME market, helps to further popularise the Express card.
- Increased number of Express Pay Terminals to 985 from 221 at year-end 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, the 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, 435,090 Express cards have been issued, in essence replacing pre-paid metro cards in circulation since July 2009.
- Issued 534,717 debit cards and 55,766 credit cards in 2013 bringing the total number of debit cards and credit cards outstanding to 857,734 and 117,913, respectively.
- Outstanding number of Retail Banking clients totalled 1,245,048.
- Acquired 1,891 new clients in the Solo business line, the Bank's mass affluent sub-brand, in 2013. As of 31 December 2013, the number of Solo clients reached 6,810.
- POS footprint: as of 31 December 2013, 283 desks at 731 contracted merchants.
- POS terminals outstanding reached 4,836, up 29.8% year-on-year.

2014 Outlook

- Capture emerging bankable population through Express Banking strategy offering and shift existing clients to transactional banking platforms to achieve cost efficient growth.
- Focus on differentiating product and services offerings for different target segments and intensify efforts to benefit from cross-selling opportunities between the Group's other businesses.
- Step up optimisation initiatives to increase efficiency of back office processes and eliminate document flow.

A STRONG RETAIL FRANCHISE...

Number of Retail Banking customers
2012: 1,054,248
1,245,048

Branches
2012: 194
202

Active online clients
2012: 42,923
54,105

Sales staff
2012: 2,115
2,159

POS terminals
2012: 3,725
4,836

Active mobile clients
2012: 4,640
14,232

...WITH EXPANDING EXPRESS BANKING SERVICES

Largely due to the success of the Express Banking service, the Bank has attracted more than 190,000 mostly emerging mass market customers and issued more than 240,000 Express cards in 2013 resulting in a 33.0% increase in Retail Banking customer account balances – mostly current accounts – the cheapest source of funding for the Bank.

EXPRESS PAY

- Credit card repayments
- Loan repayments
- Cash deposit into accounts
- Loan activation
- Utility and other payments
- Mobile top-ups
- MetroMoney top-ups

Express Pay Terminal
- 985 terminals
- 102 merchants and 178 services
- GEL 43 million monthly transactions, up 226% year-on-year
- GEL 21 million monthly banking transactions, up 192% year-on-year
- Cost of one Express Pay Terminal: US$2,500

Number of Express Pay Terminals
2012: 221
985

Volume of transactions, GEL thousands
2012: 157,183
512,400

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TRANSPORT

– Acts as payments card in metro, buses and mini-buses

EXPRESS MERCHANT

– Payments via cards and Express points
– P2P transactions between merchant and supplier
– Credit limit with 0% interest rate

EXPRESS CARD

– 418,000 cards outstanding
– Balance of GEL 61 million
– >10 million payments in transport per month

EXPRESS BRANCH

– Opening accounts and deposits
– Issuing loans and credit cards
– Credit card and loan repayments
– Cash deposit into accounts
– Money transfers
– Utility and other payments

Number of cards outstanding
2012: 141,284

418,411

Volume of transactions, GEL thousands
2012: 80,876

723,064

Number of transactions, thousands
2012: 732

7,552

EXPRESS TECHNOLOGIES

Express Technologies is the Bank's newly established IT and payments systems holding company. Part of the "Express Product Family", Express Technologies follows the success of the Express Banking service, and is a cross-platform product linking banking, utility, and transport payments. Express technologies provides payment B2B solutions, software and hardware, operates transport Automated Fare Collection (AFC) systems, card processing systems and self-service terminals. The Group aims to advance its leadership in payment systems beyond banking-related transactions through Express Technology with a view of not only strengthening its footprint in Georgia, but to consider expanding its activities internationally, in particular in the markets with relatively low bank card penetration rates.

CORPORATE BANKING

For more information on our business model, see page 14

NET INTEREST INCOME FOR THE CORPORATE BANKING BUSINESS INCREASED 12.7%, DRIVEN BY A 7.2% INCREASE IN NET LOANS TO GEL 1,819.2 MILLION. IN 2013, NET INTEREST INCOME GROWTH WAS ALSO SUPPORTED BY A 280 BPS YEAR-ON-YEAR DECREASE IN THE COST OF DEPOSITS, WHICH SIGNIFICANTLY OUTWEIGHED THE DECREASE IN LOAN YIELD, DOWN BY 150 BPS YEAR-ON-YEAR. THE DECLINE ON NET FEE AND COMMISSION INCOME IN 2013 WAS MOSTLY DUE TO THE SLOWER GROWTH OF THE BANK'S DOCUMENTARY BUSINESS. CLIENT DEPOSITS INCREASED BY 6.3% TO GEL 1,221.4 MILLION IN 2013 DESPITE THE SHARP DECLINE IN DEPOSIT RATES. OPERATING EXPENSES DECREASED 13.9% AS A RESULT OF FURTHER IMPROVEMENTS IN OPERATING EFFICIENCY TRANSLATING INTO AN IMPROVED COST TO INCOME RATIO OF 27.2% COMPARED TO 33.2% IN 2012.

The cost of credit risk increased 5.3% to GEL 31.1 million in 2013. As a result of the foregoing, 2013 profit of the Corporate Banking business amounted to GEL 73.3 million up 31.7% year-on-year.

The Corporate Banking business in Georgia comprises loans and other credit facilities to the country's large corporate clients as well as other legal entities generating revenue of more than GEL 5 million. Our Corporate Banking businesses serves over 7,200 businesses in the country, such businesses representing various sectors of the economy. The services include fund transfers and settlements services, currency conversion operations, trade finance services and documentary operations as well as handling savings and term deposits for corporate and institutional customers. The Corporate Banking business also includes finance lease facilities provided by GLC, the Group's leasing business.

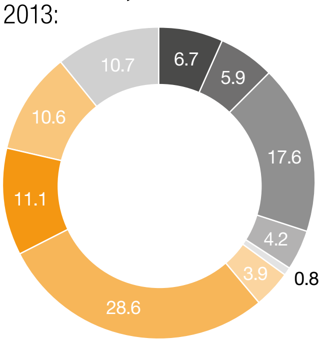
Financial performance

GEL thousands, unless otherwise noted	31 Dec 2013	31 Dec 2012	Change year-on-year
Net interest income	103,967	92,276	12.7%
Net fee and commission income	27,318	28,701	-4.8%
Net gain from foreign currencies	24,774	29,819	-16.9%
Other operating non-interest income	6,340	3,996	58.7%
Revenue	**162,399**	**154,792**	**4.9%**
Operating expenses	(44,202)	(51,323)	-13.9%
Operating income before cost of credit risk	**118,197**	**103,469**	**14.2%**
Cost of credit risk	(31,054)	(29,490)	5.3%
Net non-operating expenses	(2,690)	(8,415)	-68.0%
Profit before income tax expense	**84,453**	**65,564**	**28.8%**
Income tax expense	(11,164)	(9,936)	12.4%
Profit	**73,289**	**55,628**	**31.7%**
Net loans, stand-alone	1,819,171	1,696,325	7.2%
Letters of credit and guarantees, stand-alone*	499,055	573,396	-13.0%
Client deposits, stand-alone	1,221,428	1,148,913	6.3%
Loan Yield	12.4%	13.9%	
Cost of Deposits	4.4%	7.2%	
Cost to Income ratio	27.2%	33.2%	

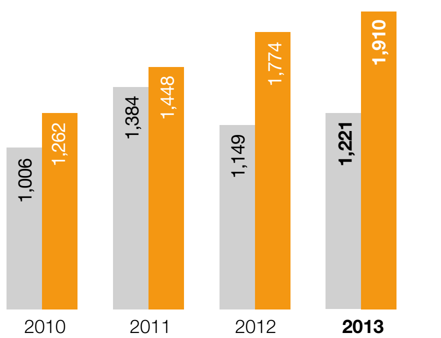
* Off-balance sheet items.

Corporate Banking gross loan portfolio, stand-alone, %

2013:



Corporate Banking gross loan and deposit growth, stand-alone, GEL million



2013 Highlights

- Increased the number of corporate clients using the Bank's payroll services from 3,429 as of 31 December 2012 to 3,842 as of 31 December 2013. At the end of 2013, the number of individual clients serviced through the corporate payroll programmes administered by the Bank amounted to 233,153, compared to 204,629 as of 31 December 2012.
- The aggregate trade finance limits from international partner credit institutions totalled US$308.2 million, equivalent to diversified across different currencies (USD, EUR, CHF) with 14 partner credit institutions.

2014 Outlook

- Achieve sustainable growth and benefit from the anticipated pick-up in economic growth in 2014.
- Focus on sectors traditionally less banked in Georgia i.e. decrease share in construction and real estate and increase penetration in pharmaceuticals and healthcare, hospitality and education, while concentrating on quality as we continue coverage build-up.
- Increase focus on cross-selling networks between different departments of the Bank and capitalise on the Research department's comprehensive insight of the under-researched sectors of the Georgian economy.

Leadership in Georgian corporate sector

1st

35.6% market share by corporate loans and 30.9% market share by corporate deposits

Superior client coverage
more than

7,200

Georgian corporates covered by the Bank's corporate bankers

Bank of Georgia headquarters, Corporate Banking corner.

INVESTMENT MANAGEMENT

For more information on our business model, see page 14

INVESTMENT MANAGEMENT CLIENT DEPOSITS INCREASED 12.3% YEAR-ON-YEAR TO GEL 679.4 MILLION IN 2013, DESPITE A 100 BPS YEAR-ON-YEAR DECLINE IN THE COST OF DEPOSITS. NET INTEREST INCOME DECLINED 35.4% TO GEL 8.2 MILLION IN 2013 PREDOMINANTLY AS A RESULT OF A CHANGE IN THE INTERNAL TRANSFER PRICING RATES WITHIN THE SEGMENTS (FROM INVESTMENT MANAGEMENT TO RETAIL BANKING AND CORPORATE BANKING). AS A RESULT, THE PROFIT OF THE SEGMENT DECLINED TO GEL 2.6 MILLION IN 2013, FROM GEL 8.3 MILLION IN 2012.

Investment Management consists of Asset and Wealth Management services and Research platform complemented by advisory brokerage services. Asset and Wealth Management provides private banking services to high-net-worth individuals and offers investment management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv. Our Research platform provides sector and macroeconomic coverage of Georgia and neighbouring countries.

Private Banking Products and Services

- Individual approach through a dedicated private banker.
- Service package of Asset and Wealth Management.
- OneCard Visa Infinite and American Express International cards.
- Deposits and credit solutions.
- Remote banking.
- Investment Management.

2013 Highlights

- Added multiple currency Certificates of Deposit (CD) product offering in December 2012 (official launch January 2013). As of 31 December 2013, GEL 195.7 million worth of CDs had been sold to IM clients.
- The Investment Management business served 1,490 clients from more than 60 countries as of 31 December 2013.
- Client funds attracted by Investment Management have grown at a compound annual growth rate (CAGR) of 42.9% over the last four year period to GEL 679.4 million as of 31 December 2013.
- Since its launch in June 2012, Bank of Georgia Research has initiated research coverage of the Georgian Economy, Azerbaijani Economy, Georgian Agricultural Sector, Georgian Electricity Sector, Georgian Oil and Gas Corporation, Georgian Railway, and issued notes on Georgian State Budget and the Tourism Sector.

2014 Outlook

- Launch Investment Management products to create an important fee-generating business.
- Expand Research coverage of attractive sectors of the Georgian economy as well as neighbouring countries.
- Continue to expand overseas presence to attract funding and decrease deposit costs.

Revenue (GEL million)
2012: 13.9
10.1

Profit (GEL million)
2012: 8.3
2.6

Financial performance

GEL thousands, unless otherwise noted	31 Dec 2013	31 Dec 2012	Change year-on-year
Net interest income	8,173	12,644	-35.4%
Net fee and commission income	530	523	1.3%
Net gain from foreign currencies	1,341	682	96.6%
Other operating non-interest income	42	73	-42.5%
Revenue	**10,086**	**13,922**	**-27.6%**
Operating expenses	(6,858)	(4,665)	47.0%
Operating income before cost of credit risk	**3,228**	**9,257**	**-65.1%**
Cost of credit risk	10	727	-98.6%
Net non-operating expenses	(255)	(305)	-16.4%
Profit before income tax expense	**2,983**	**9,679**	**-69.2%**
Income tax expense	(359)	(1,339)	-73.2%
Profit	**2,624**	**8,340**	**-68.5%**
Client deposits, stand-alone	679,401	605,183	12.3%
Cost of Deposits*	7.9%	8.9%	

* Includes overhead costs of international private banking operations.

Bank of Georgia Research

The Bank of Georgia Research Department was launched in June 2012 with a view of supporting Investment Management and Corporate Banking businesses to attract more clients and investments into Georgia through Bank of Georgia. The Research department has initiated coverage of the under-researched sectors of the Georgian economy including Hydropower, Tourism and Agricultural sectors. It also provides corporate coverage of Georgian Railways and Georgian Oil and Gas Corporation, as well as macro coverage of the Georgian and Azeri economies.

Bank of Georgia Private Equity

Renewable Energy Fund

Georgia has one of the largest untapped hydro-potential in the world, which if harnessed could produce 32 TWh of hydropower annually, four times more than the current production. Electricity demand is growing rapidly locally as well as in the region, making hydro sector one of the most attractive sectors of the Georgian economy. Bank of Georgia teamed up with an experienced Austrian developer rpGlobal to launch a US$100 million renewable energy fund, which will develop small and medium size hydropower plant projects in Georgia.

Caucasus Money Market Fund

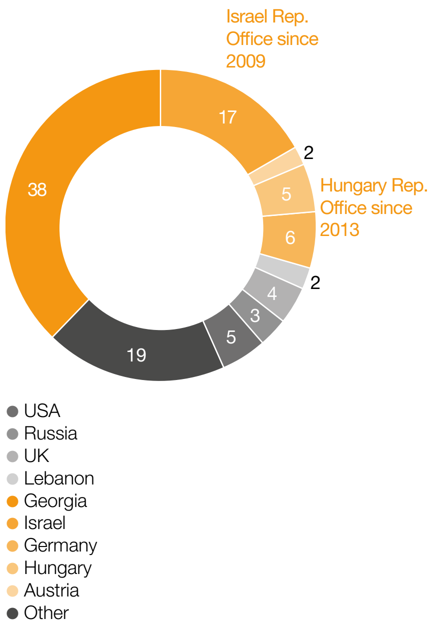
The Caucasus region is under-researched and undiscovered by global asset managers, while it presents attractive risk-return ratio and diversification benefits. The spreads between local and hard currency are still high creating some arbitrage opportunities.

Bank of Georgia plans to launch a US$200 million fund next year targeting high single digit returns for its investors. The fund plans to invest in bank deposits and sovereign treasury debt instruments in Georgia, Azerbaijan and Armenia.

Mezzanine Fund

Non-banking financing options are virtually non-existent in Georgia, although the demand for equity or quasi-equity financing is high and rapidly increasing. A relatively high cost of equity in Georgia, along with the risks associated with minority ownership creates an environment where providing well-structured capital for growth can be beneficial for both investors and companies.

Investment Management geographic distribution, %



Research projects

INSURANCE AND HEALTHCARE

For more information on our markets, see page 12

IN 2013, INSURANCE AND HEALTHCARE REVENUE INCREASED TO GEL 58.2 MILLION FROM GEL 54.9 MILLION IN 2012, REFLECTING THE GROWTH OF BOTH THE INSURANCE AND HEALTHCARE BUSINESSES THROUGH ORGANIC GROWTH AS WELL AS ACQUISITIONS.

Gross premiums written increased by 14.6% year-on-year to GEL 146.6 million in 2013 and net insurance revenue increased by 33.0% year-on-year to GEL 48.0 million in 2013. The 2013 healthcare operations reflected the roll-out of new clinics in mid-year, with normal start-up costs and initial lower utilisation not being offset by the full year revenue stream. See below the Insurance stand-alone income statement and Healthcare stand-alone pro-forma statement for more details. Operating expenses of the Insurance and Healthcare businesses decreased by 17.9% year-on-year to GEL 28.9 million in 2013, reflecting increased cost efficiency, primarily due to the integrated hospital and health insurance model. The combined operating leverage for the Insurance and Healthcare segment amounted to 24.0 percentage points. As a result of the foregoing, total operating income before the cost of credit risk for the segment totalled GEL 29.3 million in 2013 up 48.8% year-on-year.

The Insurance and Healthcare segment (Aldagi) posted a profit before income tax expense of GEL 24.2 million in 2013 compared to GEL 15.5 million in 2012. Aldagi's group consolidated annual profit stood at GEL 25.1 million in 2013.

Aldagi, the Group's wholly-owned subsidiary, is the leading provider of life and non-life insurance as well as healthcare services in Georgia. Aldagi's operations are made up of two distinct, but strategically aligned business platforms: Aldagi Insurance and Aldagi Healthcare. Aldagi Insurance covers more than 800,000 insured clients through its country-wide agency network and strong sales force.

Aldagi Healthcare is the largest healthcare provider in Georgia. Its business comprises 36 hospitals and outpatient clinics in Georgia, representing the largest healthcare provider in the country. With its largest chain of high quality, multi-profile hospitals in Georgia, the Aldagi Healthcare business holds 20.5% market share by bed capacity covering two-thirds of the population as of 31 March 2014.

Management believes that an integrated hospitals and health insurance model results in operating synergies which include such as: 1) cost advantage as a vertically integrated healthcare business allows a better control of cost of healthcare; 2) the organisation of hospitals in geographic clusters and referral hierarchy within such clusters provides patients a pathway from local doctors to multi-profile or specialised hospitals; and 3) revenue synergies with health insurance and healthcare facilities as insurance plays a referral role increasing patient volumes at affiliated hospital businesses.

2013 Highlights

- Aldagi's market share stood at 29.0% as of 30 September 2013 based on gross insurance revenue.
- In Q1 2014, Aldagi's Healthcare acquired a 100% equity interest in a 60 bed, high-end, multi-specialty hospital in Tbilisi and a 100% equity interest in Avante Hospital Management Group, the second largest healthcare provider in Georgia following Aldagi Healthcare, with four hospitals located in Tbilisi and Batumi.
- Aldagi Healthcare increased the number of insurance clients to 827,000 as of 31 December 2013 from 773,000 as of 31 December 2012.
- In 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. The changes are in line with the Group's intention to establish independent branding for Aldagi, to distinguish it from its parent company.

2014 Outlook

- As anticipated, the Government has recently announced its intention to abolish the State Insurance Programme (SIP) under the management of insurance companies. The management of SIP will be fully transferred to the state during 2014 and will be replaced with the newly introduced UHP, which envisions the provision of direct healthcare coverage to all Georgian citizens. As the largest healthcare services provider in the country, Aldagi Healthcare is well-positioned to benefit from increased healthcare spending by the Government over the next few years.
- Achieving one-third market share by continuing to grow organically and through acquisitions.
- Setting quality standards for the healthcare services in Georgia, through institutionalising the industry.
- BGH and Aldagi are currently preparing to list Aldagi's Healthcare-related business on an international stock exchange.

Through its extensive network platform and integrated business model, Aldagi is strongly placed to tap the growth opportunity presented by the insurance and healthcare sectors of Georgia.

Revenue (GEL million)
2012: 54.9
58.2

Profit (GEL million)*
2012: 16.4
25.1

* On an Aldagi group consolidated basis.

Financial performance

GEL thousands, unless otherwise noted	2013 Insurance	2013 Healthcare	2013 Elimination	2013 Total	2012 Insurance	2012 Healthcare	2012 Elimination	2012 Total	Change year-on-year Insurance	Change year-on-year Healthcare	Change year-on-year Total
Gross premiums written	**146,595**	**–**	**–**	**146,595**	**127,922**	**–**	**–**	**127,922**	**14.6%**	**–**	**14.6%**
Net interest income (expenses)	2,546	(12,404)	–	(9,858)	1,825	(6,481)	–	(4,656)	39.5%	91.4%	111.7%
Net fee and commission income (expenses)	256	(250)	–	6	(107)	–	–	(107)	NMF	–	NMF
Net insurance revenue, of which:	36,945	–	11,051	47,996	29,661	–	6,422	36,083	24.6%	–	33.0%
Net insurance premiums earned	133,013	–	(356)	132,657	93,121	–	–	93,121	42.8%	–	42.5%
Net insurance claims incurred	(96,068)	–	11,407	(84,661)	(63,460)	–	6,422	(57,038)	51.4%	–	48.4%
Net healthcare revenue (loss), of which:	–	33,776	(11,407)	22,369	–	29,768	(6,422)	23,346	–	13.5%	-4.2%
Healthcare revenue	–	90,745	(30,732)	60,013	–	68,597	(14,221)	54,376	–	32.3%	10.4%
Cost of healthcare services	–	(56,969)	19,325	(37,644)	–	(38,829)	7,799	(31,030)	–	46.7%	21.3%
Net gain (loss) from foreign currencies	543	(5,139)	–	(4,596)	238	(1,090)	–	(852)	128.2%	NMF	NMF
Other operating non-interest income	1,021	1,277	(6)	2,292	1,000	257	(209)	1,048	2.1%	NMF	118.7%
Revenue	**41,311**	**17,260**	**(362)**	**58,209**	**32,617**	**22,454**	**(209)**	**54,862**	**26.7%**	**-23.1%**	**6.1%**
Operating expenses	(16,795)	(12,434)	362	(28,867)	(17,437)	(17,917)	209	(35,145)	-3.7%	-30.6%	-17.9%
Operating income before cost of credit risk	**24,516**	**4,826**	**–**	**29,342**	**15,180**	**4,537**	**–**	**19,717**	**61.5%**	**6.4%**	**48.8%**
Cost of credit risk	(981)	(39)	–	(1,020)	(1,502)	(802)	–	(2,304)	-34.7%	-95.1%	-55.7%
Net non-operating income	–	–	–	–	–	440	–	440	–	-100.0%	-100.0%
Profit before income tax expense	**23,535**	**4,787**	**–**	**28,322**	**13,678**	**4,175**	**–**	**17,853**	**72.1%**	**14.7%**	**58.6%**
Income tax expense	(3,760)	(389)	–	(4,149)	(2,068)	(242)	–	(2,310)	81.8%	60.7%	79.6%
Profit	**19,775**	**4,398**	**–**	**24,173**	**11,610**	**3,933**	**–**	**15,543**	**70.3%**	**11.8%**	**55.5%**
Cost to Income ratio	40.7%	72.0%	–	49.6%	53.5%	79.8%	–	64.1%	-12.8%	-7.8%	–
Loss ratio	69.9%	–	–	–	64.4%	–	–	–	–	–	–
Combined ratio	86.4%	–	–	–	86.7%	–	–	–	–	–	–

Tbilisi Outpatient Centre (EVEX)
Aldagi, through its healthcare brand EVEX, runs the largest chain of high quality, multi-profile hospitals throughout Georgia. A well-balanced regional hospital composition allows for fluent patient treatment pathway from local doctors to multi-profile or specialised hospitals.

IN 2013, OTHER OPERATING NON-INTEREST INCOME REACHED GEL 10.5 MILLION, AS A RESULT OF A GEL 8.0 MILLION GAIN FROM THE REVALUATION OF INVESTMENT PROPERTIES, MOSTLY ATTRIBUTABLE TO THE REVALUATION OF THREE PROPERTIES, TWO OF WHICH M2 STARTED TO DEVELOP IN Q4 2013.

The remainder came from the sale of apartments in the pilot project as well as rental revenue. Total revenue as a result totalled GEL 12.6 million in 2013, compared to GEL 4.6 million revenue during the same period last year. As a result, net profit totalled GEL 7.8 million in 2013 compared to a GEL 2.0 million net profit in 2012.

The Affordable Housing business consists of the Bank's wholly-owned subsidiary m2 Real Estate, which develops and sells apartments from the investment properties repossessed by the Bank from defaulted borrowers and manages those properties. With the aim to improve liquidity of these repossessed real estate assets and stimulate the Group's mortgage lending business capitalising on the market opportunity in the Affordable housing segment in Georgia, the Group develops, sells or leases such real estate assets through m2 Real Estate. m2 Real Estate successfully completed its first housing project in 2012 and is expected to complete the second project in the first half of 2014.

2013 Highlights

– Construction of a second project of 522 residential apartments with a total buildable area of 63,247 square metres is near completion. As of 31 December 2013, 469 or 90% of apartments had been pre-sold. The total sales from this project amounted to US$40.5 million as of 31 December 2013. The project is expected to be completed in the summer of 2014 with a planned IRR of 35%. Strong sales performance enabled the company to prepay FMO debt facility in full in December 2013.
– In December 2013, m2 Real Estate launched its third and fourth projects: Kazbegi Avenue with a total buildable area of 33,574 square metres and Nutsubidze Street total buildable area of 26,014 square metres. m2 Real Estate sold 37% of the apartments in the Kazbegi Avenue project and 11% of the units in the Nutsubidze Street project within three weeks. As of 31 December 2013, sales amounted to US$9.2 million and US$2.2 million, respectively.
– As of 31 December 2013, the number of mortgages sold in respect of both projects totalled 273 amounting to GEL 28.3 million.

AFFORDABLE HOUSING

For more information on our business model, see page 14

FIRST COMPLETED PROJECT IN 2012

Financial performance

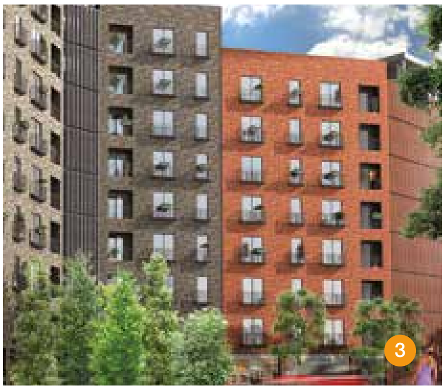
GEL thousands, unless otherwise noted	2013			2012			Change year-on-year		
	m2	Mortgages	Total	m2	Mortgages	Total	m2	Mortgages	Total
Net interest income (expenses)	**1,063**	**948**	**2,011**	**(276)**	**423**	**147**	**NMF**	**124.1%**	**NMF**
Net fee and commission income (expenses)	(27)	–	(27)	196	–	196	NMF	–	NMF
Net gain (loss) from foreign currencies	123	–	123	(145)	–	(145)	NMF	–	NMF
Other operating non-interest income	10,505	–	10,505	4,378	–	4,378	139.9%	–	139.9%
Revenue	**11,664**	**948**	**12,612**	**4,153**	**423**	**4,576**	**180.9%**	**124.1%**	**175.6%**
Operating expenses	(2,893)	–	(2,893)	(2,381)	–	(2,381)	21.5%	–	21.5%
Operating income before cost of credit risk	**8,771**	**948**	**9,719**	**1,772**	**423**	**2,195**	**NMF**	**124.1%**	**NMF**
Cost of credit risk	(185)	240	55	–	(219)	(219)	–	NMF	NMF
Net non-operating income (expenses)	(823)	(1)	(824)	282	–	282	NMF	–	NMF
Profit before income tax expense	**7,763**	**1,187**	**8,950**	**2,054**	**204**	**2,258**	**NMF**	**NMF**	**NMF**
Income tax expense	(1,142)	–	(1,142)	(307)	–	(307)	NMF	–	NMF
Profit	**6,621**	**1,187**	**7,808**	**1,747**	**204**	**1,951**	**NMF**	**NMF**	**NMF**

2014 Outlook

- Targeted IRR in new projects launched of approximately 40%.
- Four additional projects at different stages of design phase with total buildable area of approximately 106,000 square metres.

m2 Real Estate in total has seven projects in its pipeline of which three projects are in an active construction phase with the remainder being in a design stage.

To finance its new projects, m2 Real Estate has secured a US$14 million revolving credit line from International Finance Corporation including US$4 million from the IFC-Canada Climate Change Program supported by the Government of Canada to stimulate green housing developments by m2 Real Estate. The construction of two projects that are currently in a design stage is expected to commence in Summer 2014. The remaining two projects will be launched by the end of 2014.



Revenue (GEL million)
2012: 4.6

12.6

Profit (GEL million)
2012: 2.0

7.8

1. **Chubinashvili Street project,** 123 apartments, total buildable area of 15,015 square metres (commenced in 2010, completed in 2012).
2. **Tamarashvili Street project,** 522 apartments with a total buildable area of 63,247 square metres (commenced in 2012, to be completed in 1H 2014).
3. **Nutsubidze Street project,** 221 apartments with a total buildable area of 26,014 square metres (commenced in Q4 2013, to be completed in 2015).
4. **Kazbegi Street project,** 295 apartments, total buildable area of 33,574 square metres (commenced in Q4 2013, to be completed in 2015).

MANAGING RISK EFFECTIVELY

For more information on our risk management policy, visit www.bogh.co.uk/corporate-governance

THE FOLLOWING DISCUSSION MAY NOT CONTAIN ALL THE INFORMATION THAT IS IMPORTANT TO READERS OF THIS ANNUAL REPORT. FOR ADDITIONAL INFORMATION RELATING TO THE ROLE OF THE AUDIT COMMITTEE SEE PAGES 76 TO 79 OF THIS ANNUAL REPORT. IN ADDITION, NOTE 27 OF THE ACCOMPANYING CONSOLIDATED FINANCIAL STATEMENTS PROVIDES ADDITIONAL DETAIL REGARDING THE RISK MANAGEMENT PROCEDURES.

Overview

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

The BGH Board has ultimate responsibility for the Group's risk appetite as well as reviewing the effectiveness of the systems and processes of risk management.

The Risk Management Policy adopted by BGH sets out the manner in which the Group identifies, assesses, manages and monitors the risk programme for BGH, the Bank and its subsidiaries. The main objectives of the Risk Management Policy are to:

- Formulate the Group's risk appetite;
- Identify and define the nature and extent of the Group's significant risks;
- Set out the Group's risk management and risk reporting procedures;
- Clearly define the Group's risk management bodies and the roles and responsibilities of each of the BGH Board, Supervisory Board of the Bank, Bank committees as well as the business managers that implement the policy and procedures; and
- Establish the Group's risk management and risk reporting procedures in order to ensure that risks are properly identified and monitored and mitigated where possible as well as properly reported, both internally and externally.

The Role of the Bank in the Overall Risk Management Structure

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main risks inherent in the Bank's operations are credit risk, liquidity risk, market risk (including currency and foreign exchange rate risks), operational risk and legal risk. The following is a description of the Bank's risk management policies and procedures in respect of those risks. Business risks such as changes in the environment, technology and industry are monitored through the Group's strategic planning process.

The main tools of risk management of the Bank are the establishment of specific procedures with respect to operations involving certain types of risks as well as the placement of various authority limits on certain operations. The Bank seeks to manage its overall risk exposure by continuously improving its risk management policies and systems. The Bank's risk management procedures are designed to identify and analyse relevant risks to its business, prescribe appropriate limits to various risk areas and to monitor the level and incidence of such risks on an ongoing basis. The Bank regularly reviews its risk analysis processes in order to institute improvements which are required in light of the development and growth of its business and the varying nature of the risks which the Bank faces in its day-to-day business.

The Bank's risk management system is based on the principle of continually assessing risk throughout the life of any operation and includes such stages as:

- risk identification;
- quality and quantity assessment of a particular risk;
- determination of an acceptable risk level;
- placement of limits and creation of reserves;
- use of collateral;
- ongoing monitoring and control allowing efficient adjustments in case of any negative changes in the conditions on which the preliminary risk assessment was made; and
- analysis of efficiency of the risk management system.

Risk Management Structure

The Bank conducts its risk management activities within the framework of its unified risk management system.

Risk Management bodies

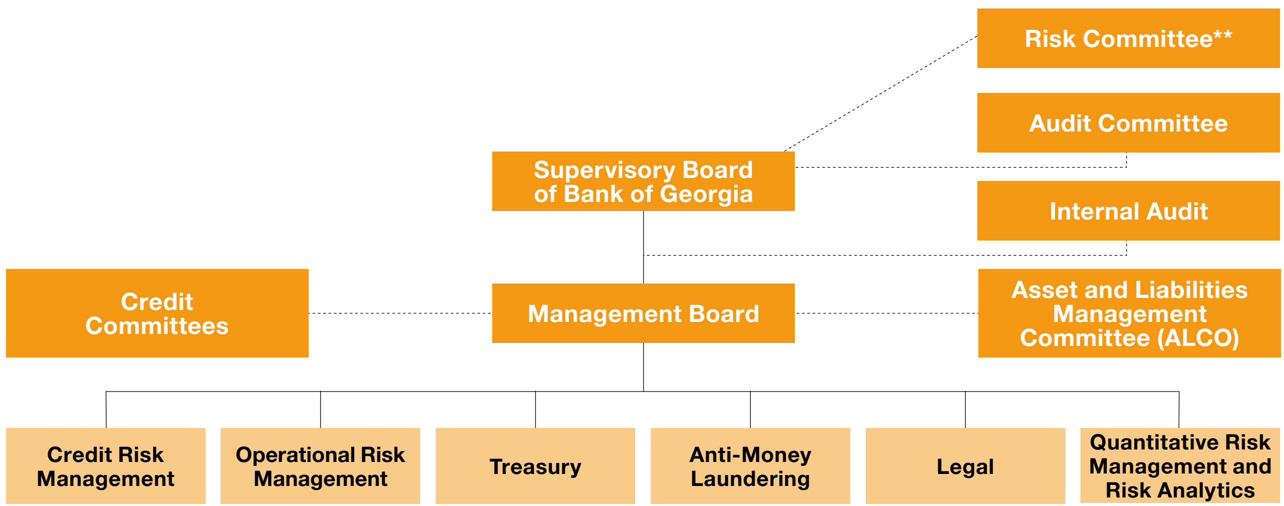
Responsibility for the conduct of the Bank's risk management activities within the Group lies at all levels of the Group from the BGH Board of Directors to business managers and risk managers. The distribution of responsibilities ensures that risk/return decisions are taken at the appropriate level.

As mentioned above, ultimate responsibility for the Group's risk management lies with the BGH Board. The BGH Board is responsible for setting the Group's risk philosophy and appetite and approving the overall risk management strategy and policy of the Group. It is responsible for maintaining a sound system of internal control that supports the achievement of its goals and objectives and overseeing the establishment, implementation and review of the Group's risk management systems. In order to implement the Group's Risk Management Policy effectively, the BGH Board has delegated responsibility for risk management to the BGH Audit Committee, which supervises the Group's financial reporting, the performance of both the internal audit function and the external auditor and the management of the Group's systems of internal control and compliance activities. The principal risk management bodies of the Bank are Supervisory Board, Audit Committee, Risk Committee, Management Board, Internal Audit and Compliance departments, Treasury, the Credit Committees, the Asset and Liability Management Committee (the ALCO) and the Bank's Legal Department. On 1 January 2014, BGH formed a Risk Committee at the BGH and Bank Board levels. The BGH Risk Committee, which is comprised of four Independent Non-Executive Directors, is now responsible for advising the BGH Board on the Group's overall risk appetite, tolerance and current and future strategy; assessing and approving the methodology used by BGH to assess risk; and overseeing the current risk exposures of the Group.

At least once a year, the BGH Board conducts a review of the effectiveness of the Group's risk management and internal control systems, including the Risk Management Policy. The review covers all material controls, including financial, operational and compliance controls.

The risk management bodies and reporting lines of the Bank are detailed directly below.

Risk Management bodies of Bank of Georgia*



* Bank of Georgia is the principal subsidiary of Bank of Georgia Holdings.
** As of 1 January 2014.

Supervisory Board. The Supervisory Board is responsible for the Bank's overall risk management approach and for approving risk strategies and principles and is ultimately responsible for identifying and controlling risks. The principal risks the Bank faces are credit risk, liquidity risk, market risk (including currency and foreign exchange rate risks), operational risk and legal risk. The Supervisory Board approves the Bank's Credit Policies, which outline credit risk control and monitoring procedures and the Bank's credit risk management systems and approves certain decisions which fall outside the scope of the respective authorities of the Credit Committees (including approvals of single borrower lending exposure exceeding US$25.0 million). The Bank Management Board presents a comprehensive credit risk report and market risk report to the Bank Supervisory Board for their review on a quarterly basis.

Risk Committee. Since 1 January 2014, the Risk Bank Committee has the overall responsibility for advising the Supervisory Board on the Bank's overall risk appetite, tolerance and strategy, taking into account the current and prospective macroeconomic and financial environment. The Risk Committee oversees the risk exposures of the Bank and advises the Supervisory Board on risk strategy. The Risk Committee reviews regularly and approves the parameters used by the Bank to assess risk and the adopted methodology and reviews the Bank's capability to identify and manage new risk types. The Risk Committee also sets a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance, including, but not limited to credit risk, market risk and operational risk.

Audit Committee. The Audit Committee has overall responsibility for implementing principles, frameworks, policies and limits in accordance with the Bank's risk management strategy related to the general control environment, manual and application controls, risks of intentional or unintentional misstatements, risk of fraud or misappropriation of assets, information security, anti-money laundering, information technology risks, etc. The Bank Audit Committee facilitates the activities of the internal audit and external auditors of the Bank. The Bank Internal Audit Department also reviews AML policies and procedures and presents audit reports on AML to the Bank Audit Committee on a quarterly basis. The Bank Audit Committee is elected and directly monitored by the Bank Supervisory Board.

Management Board. The Management Board has overall responsibility for the Bank's asset, liability and risk management activities, policies and procedures. In order to effectively implement the risk management system, the Management Board delegates individual risk management functions to each of the various decision-making and execution bodies within the Bank.

Internal Audit Department. The Internal Audit Department is responsible for the annual audit of the Bank's risk management, internal control and corporate governance processes. It examines both the adequacy of and the Bank's compliance with those procedures. The Bank Internal Audit Department discusses the results of all assessments with management, and reports its findings and recommendations to the Bank Audit Committee and the Supervisory Board.

The principal function of the Bank Internal Audit Department is to reduce the levels of operational and other risks, audit the Bank's internal control systems, and detect any infringements or errors on the part of the Bank's departments and divisions. The Bank Internal Audit Department provides reasonable assurance that the Bank's policies conform to current legislation and regulation and professional norms and ethics and it is responsible for monitoring and assessing the adequacy of compliance with internal procedures at all levels of the Bank's management. This Department regularly inspects the integrity, reliability and compliance with applicable law of operations conducted by the Bank's risk management departments, and regularly reviews the reliability of the Bank's information technology systems in accordance with a predetermined schedule. It also assesses the reliability and security of financial information and monitors the Bank's internal controls and reporting procedures.

The Bank Internal Audit Department is independent of the Bank Management Board. The Head of the Bank Internal Audit Department is appointed by the Bank Supervisory Board and reports directly to the Bank Audit Committee. The Bank Internal Audit Department has 11 employees. The Bank's Internal Audit Department audits all of the Bank's subsidiaries, apart from BNB which has its own internal audit department that report to the Bank's Internal Audit Department and BNB's audit committee.

As part of its auditing procedures, the Bank Internal Audit Department is responsible for the following:
- identifying and assessing potential risks regarding the Bank's operations;
- reviewing the adequacy of the existing controls established in order to ensure compliance with the Bank's policies, plans, procedures and business objectives;
- developing internal auditing standards and methodologies;
- carrying out planned and random inspections of the Bank's branches and subdivisions and auditing its subsidiaries;
- analysing the quality of the Bank's products;
- participating in external audits and inspections by the NBG;
- making recommendations to management on the basis of external and internal audits to improve internal controls;
- monitoring the compliance of the Bank with the NBG regulations; and
- monitoring the implementation of auditors' recommendations.

The Bank's internal audit department applies a risk-based audit approach to assess the significant risks that impact the Bank's business, how (and how well) those risks are managed and controlled, what measures are used to monitor the process, the reliability of the Bank's key performance indicators and management information and the efficiency of the process.

Treasury. Treasury is responsible for managing the Bank's assets and liabilities and its overall financial structure and is also primarily responsible for managing funding and liquidity risks of the Bank.

Credit Committees. The Bank has three credit committees (together, the Credit Committees), one which supervises and manages the Bank's credit risks in respect of retail and investment management loans and one which supervises and manages the Bank's credit risks in respect of corporate loans. Each Credit Committee approves individual loan transactions and establishes credit risk categories and provisioning rates on such transactions. The Deputy Chief Executive Officer (Chief Risk Officer) and the Credit Risk Management Department review the credit quality of the loan portfolio, set provisioning rates and, in consultation with the Bank's CEO and Deputy CEO (Finance), adopt decisions on the write-off, on a monthly basis, of corporate loans past due for more than 150 days. Each Credit Committee is comprised of tiers of subcommittees. The Credit Committee for retail loans comprises four tiers of subcommittee. (For risk management purposes, investment management loans are classified as retail loans.) The Credit Committee for corporate loans comprises three tiers of subcommittee. Each first tier subcommittee is chaired by the Risk Manager of the relevant Credit Risk Management Department and approves loans resulting in the Bank's overall exposure of up to US$500,000 for corporate loans and up to US$150,000 for retail loans. Each second tier subcommittee is chaired by the Head of the Credit Risk Analysis Unit for corporate and by Deputy Head of Credit Risk Management Department for retail loans and approves loans resulting in the Bank's overall exposure in the range of US$500,000 to US$1.5 million for corporate loans and US$150,000 to US$300,000 for retail loans. The third tier subcommittee for corporate loans is chaired by the CEO (and, in his absence, the Deputy CEO (Chief Risk Officer)) and approves loans resulting in the Bank's overall exposure exceeding US$1.5 million. The third tier subcommittee for retail loans is chaired by the Director of the Credit Risk Management Department and approves loans of up to US$2.0 million. The fourth tier subcommittee for retail loans is chaired by the CEO (and, in his absence, the Deputy CEO (Chief Risk Officer)) and approves loans resulting in the Bank's single borrower lending exposure exceeding US$2.0 million. Participation of CEO is required for exposures exceeding US$8.0 million. All exposures to single group borrowers over US$25.0 million require approval by the Supervisory Board. The third and fourth tier subcommittees of the Credit Committee for retail loans meet three times per week and the first and

Credit Committee tiers of subcommittees

	Subcommittee Chair	Approval limit for Corporate Banking loans (USD)
Tier I	Risk Manager of the relevant Credit Risk Management	Less than US$500,000 for existing and new borrower
Tier II	Head of the Credit Risk Analysis unit	Between US$500,000 and US$1.5 million for existing and new borrower
Tier III	CEO/CRO	Greater than US$1.5 million for existing and new borrower

	Subcommittee Chair	Approval limit for Retail Banking loans (USD)
Tier I	Risk Manager of the relevant Credit Risk Management	Less than US$150,000
Tier II	Deputy Head of Credit Risk Management department	Between US$150,000 and US$300,000 for retail loans
Tier III	Director of the Credit Risk Management department	Between US$300,000 and US$2.0 million
Tier IV	CEO/CRO	Greater than US$2.0 million

second tier subcommittees of each of the Credit Committees meet on an as-needed basis, typically two to three times per week. Each of the subcommittees of the Credit Committees makes its decisions by a majority vote of its respective members. The Credit Committee for Micro and SME loans comprises three tiers of subcommittees, and falls under the Credit Committee for retail loans. The first tier Micro and SME Credit Committee is chaired by the head of the group of the Micro and SME Lending Department and approves loans resulting in the Bank's overall exposure to a borrower of up to US$15,000. The originator of the loan does not participate in the approval of the loan. The second tier Micro and SME Credit Committee is chaired by the Micro and SME Department representative (head of the Micro and SME Department, deputy head of department, coordinator) and approves loans resulting in the Bank's overall exposure to a borrower up to US$100,000. The third tier Micro and SME Credit Committee approves loans resulting in the Bank's overall exposure to a borrower in the range of US$100,000 to US$1,200,000. The committee is chaired by the Risk Manager, with mandatory participation from either the Head of the Credit Risk Analysis Unit or the Head of the Credit Risk Management Department (or his or her deputy) for exposures exceeding US$500,000.

Recovery Committees. The Problem Loan Recovery Committee is chaired by one of the following: (1) the heads of the Problem Loan Management Department; (2) the heads of the Risk departments, of which there are two; (3) the Deputy CEO (Chief Risk Officer); or (4) the Chief Executive Officer, depending on the level of exposure. The Problem Loan Recovery Department manages the Bank's exposures to problem loans and reports to the Deputy CEO (Chief Legal Officer). The Deputy CEO (Chief Risk Officer) also chairs the committee which oversees loans which are the subject of litigation.

The Corporate Recovery Committee is chaired by the Deputy CEO (Chief Risk Officer) and is responsible for monitoring all of the Bank's exposures to loans that are being managed by the Corporate Recovery Department. The Corporate Recovery Department reports to the Deputy CEO (Corporate Banking).

Asset and Liability Management Committee (ALCO). The ALCO is the core risk management body that establishes policies and guidelines with respect to capital adequacy, market risks and respective limits, funding liquidity risk and respective limits, interest rate and prepayment risks and respective limits, money market general terms and credit exposure limits, designs and implements respective risk management and stress testing models in practice and regularly monitors compliance with the pre-set risk limits, approves treasury deals with non-standard terms.

Specifically, ALCO:

- sets money-market credit exposure/lending limits;
- sets open currency position limits with respect to overnight and intraday positions;
- establishes stop-loss limits for foreign currency operations and securities;
- monitors compliance with the established risk management models for foreign exchange risk, interest rate risk and funding liquidity risk;
- sets ranges of interest rates for different maturities at which the Bank may place its liquid assets and attracts funding; and
- reviews different stress tests and capital adequacy models prepared by the Finance Department.

The ALCO is chaired by the CEO and at any time deemed necessary, with decisions made by a majority vote of its members. ALCO members include the CEO, Deputy CEO Finance, Deputy CEO, Chief Risk Officer, Deputy CEO Corporate Banking, Deputy CEO, Retail Banking, Deputy CEO, Investment Management, the Head of the Financial Department, the Head of the Treasury Department and the Head of the Funding Department. The ALCO reviews financial reports and indices including the Bank's limits/ratios, balance sheet, statement of operations, maturity gap, interest rate gap, currency gap, foreign exchange risk, interest rate risk and funding liquidity risk reports, total cash flow analyses, customer cash flow analysis, concentration risk analysis, for the past periods as well as future projections and forecasts, other financial analysis and further growth projections on a monthly basis.

Regulatory capital requirements in Georgia are set by NBG and are applied to the Bank, on a stand-alone basis. NBG requires the Bank to maintain a minimum Total Capital Adequacy ratio of 12% of risk-weighted assets and a minimum Tier I Capital Adequacy ratio of 8% of risk-weighted assets, both computed based on the Bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. The Bank also follows Basel I capital adequacy regulations on its own, having established respective minimal internal ratios of 16% for Total Capital and 10% for Tier I Capital, as opposed to 8% and 6% of original Basel I pronouncement, respectively. ALCO is the key governing body for the Capital adequacy management as well as for the respective risks identification and management. ALCO establishes limits and reviews actual performance over those limits for both NBG as well as Basel I capital adequacy regulations. The Finance Department is in charge of regular monthly monitoring and reporting over NBG and Basel I capital adequacy compliance with original pronouncements as well as with ALCO policies. Capital adequacy management is an integral part of the Bank's actual monthly reporting as well as the Bank's annual and semi-annual budget approval and budget review processes. The Finance Department prepares NBG and Basel I and Basel II – III capital adequacy actual reports as well as their forecasts and budgets, as well as different stress scenarios for both regulations, while ALCO and the Management Board regularly review them, identify risks, issue recommendations or propose amendment measures.

Legal Department. The Legal Department's principal purposes are to ensure that the Bank's activities conform to applicable legislation and to minimise losses from the materialisation of legal risks. The Legal Department is responsible for the application and development of mechanisms for identifying legal risks in the Bank's activities in a timely manner, the investigation of the Bank's activities in order to identify any legal risks, the planning and implementation of all necessary actions for the elimination of identified legal risks, participation in legal proceedings on behalf of the Bank where necessary and the investigation of possibilities for increasing the effectiveness of the Bank's legal documentation and its implementation in the Bank's daily activities. The Legal Department is also responsible for providing legal support to structural units of the Bank.

Anti-Money Laundering Compliance. The Bank's AML Compliance Department is responsible for the implementation of the Bank's AML programme (including the development of AML policies and procedures, transaction monitoring and reporting and employee training) throughout the Bank and its subsidiaries. The AML programme is based on recommendations and requirements of international organisations including FATF and OFAC recommendations. The Bank's Internal Audit Department makes annual assessments of the Bank's AML systems and provides independent assurance of internal controls.

The Bank has policies and procedures aimed at preventing money laundering and terrorist financing, including a general anti-money laundering policy and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for reporting to the FMS, a legal entity of public law. The FMS was established in 2003 and serves as Georgia's Financial Intelligence Unit. These procedures aim to, among other things, mitigate the risk of the Bank being used as a vehicle for money laundering or terrorist financing, protect the Bank from financing and reputation risks of being associated with money laundering or terrorist financing activities and ensure that banking services are provided only to bona fide customers.

The Bank has implemented specific policies and procedures in order to satisfy the requirements of the EU's Third Directive, which requires financial institutions to identify and verify the identity of its customers and their beneficial owners and monitor its customers' transactions, while taking into account a risked-based approach. Adopting a risk-based approach implies the adoption of a risk management process for dealing with money laundering and terrorist financing. This process encompasses recognising the existence of risks, undertaking an assessment of those risks and developing strategies to manage and mitigate the identified risks. The Bank uses a risk assessment matrix based on customer, sector, country and product risk. The Bank has a general AML policy; "know your customer" procedures that require it to identify its customers, verify their identity and their ultimate beneficial owners as well as the economic rationale of their transactions; "know your correspondent bank" procedures that involve careful screening of prospective correspondent banks' AML policies; and "know your employee" procedures to prevent its employees' involvement in money laundering and financing terrorism. The Bank's risk-based approach means that it applies enhanced due diligence procedures if it determines that there is a significant risk that particular customers are engaged in money laundering or financing terrorism.

The Bank carries out transaction monitoring using profiling and rules-based methodologies. Customer profiling is used to identify unusual patterns of activity by comparing current patterns with previous transactions by the same customer or peer group. Under the rule-based methodology, certain types of transactions over GEL 30,000 or its equivalent in foreign currencies as well as transactions involving certain high-risk, non-cooperative or suspicious jurisdictions are subject to monitoring and reporting.

The Bank's transaction monitoring system is supported by a software application that enables fully automated monitoring of all transactions against blacklists. These blacklists include all sanctions lists and lists of banned individuals and organisations maintained by OFAC, the European Union, the United Nations and Interpol, including OFAC's specially designated nationals list, among others. The Bank also screens customers to determine whether they are politically exposed persons or other high-risk customers. It applies special KYC procedures prior to opening an account for a politically exposed person and requires approval from a deputy CEO.

The Bank is obliged to notify the FMS of all transactions that are subject to monitoring. These reports are currently filed in electronic form in the offline mode by the AML Compliance Department, the reporting process is fully automated, which is supported by the special supporting solution.

Implementation

The Bank's risk management system is implemented by the Finance Department, Quantitative Risk Management and Risk Analytics Department, Treasury, Credit Risk Management, Operational Risk Management and Control, Legal, AML Compliance and Security departments and other departments. The Reporting and Analysis Unit reports to the Head of the Finance Department. The Finance Department and the Treasury Department report to the Deputy CEO

(Finance). The Credit Risk Management (CB Portfolio Analysis), Quantitative Risk Management and Risk Analytics Department and Operational Risk Management and Control departments report to the Deputy CEO (Chief Risk Officer) and the Credit Risk Management (Retail Banking Portfolio Analysis) department reports to the Deputy CEO (Retail Banking). The Legal department, AML Compliance department and Problem Loan Recovery Department report to the Deputy CEO (Legal).

The Quantitative Risk Management and Risk Analytics Department, in coordination with the Treasury, implements the Bank's market risk policies by ensuring compliance with established open currency position limits, counterparty limits, VAR limits on possible losses and the interest rate policy set by the ALCO.

The Treasury Department manages foreign currency exchange, money market, securities portfolio and derivatives operations and monitors compliance with the limits set by the ALCO for these operations. The Treasury Department is also responsible for management of short-term liquidity and treasury cash flow and monitors the volumes of cash in the Bank's ATMs and at its service centres.

The Credit Risk Management Department manages credit risks with respect to particular borrowers and assesses overall loan portfolio risks. It is responsible for ensuring compliance with the Bank's Credit Policies, management of the quality of the Bank's loan portfolio and filing and loan administration.

The Operational Risk Management and Control Department is responsible for identification and assessment of operational risk categories within the Bank's processes and operations. It is also responsible for detecting critical risk areas or groups of operations with an increased risk level and developing internal control procedures to address these risks, through (among other things) business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibility.

The Legal Department monitors all changes in relevant laws and regulations, and ensures that those changes are properly reflected in the Bank's procedures, instructions, manuals, templates and other relevant documentation. It also disseminates information on legislative changes to all relevant departments within the Bank. The Legal Department also participates in drafting laws and regulatory documents upon request of legislators and regulators, certain associations and other professional bodies.

The Tax Compliance Unit of the Finance Department focuses on the Bank's relationship with the tax authorities and provides practical advice and monitors tax compliance across the Group.

Each of the foregoing departments is provided with policies and/or manuals that are approved by the Bank Management Board and/or the Bank Supervisory Board (as required). The manuals and policies include comprehensive guidance for each stage of a transaction, including, but not limited to, manuals outlining asset and liability management policies, foreign exchange operations procedures, fixed income investment guidelines, Retail Banking operations procedures, the deposit policy and the Credit Policies.

Risk measurement and reporting

The Bank measures risk using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. These models use probabilities derived from historical experience, adjusted from time to time to reflect the economic environment. The Bank also runs worst case scenarios that could arise in the event that extreme events, however unlikely, do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. The Bank also conducts ongoing monitoring and control allowing efficient adjustments in case of any unexpected changes in the conditions on which the preliminary risk assessment was made. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The Group maintains a management reporting system which requires the Credit Risk Management, Finance and Funding departments to prepare certain reports on a daily and monthly basis. On a daily basis, a statement of operations, balance sheet and treasury report (which includes the Bank's open foreign exchange positions, cash flows, limits and balances on NOSTRO and LORO correspondent accounts) and confirmation that there has been compliance with mandatory financial ratios must be provided by each department. On a monthly basis, a report on the structural liquidity gap, a report on interest rate risk, monthly financial statements, and a Bank Supervisory Board quarterly report containing analysis of the Bank's performance against its budget are provided.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The report includes aggregate credit exposure, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Bank Management Board and Supervisory Board receive a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and draw conclusions on the Bank's risk exposure.

Specifically tailored risk reports are prepared and distributed for all levels throughout the Bank in order to ensure that all business divisions have access to extensive, relevant and up-to-date information. A daily briefing is given to the Bank Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation and excessive risk concentration

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forward transactions. While these derivatives are intended for hedging, they do not qualify for hedge accounting.

The Bank actively uses collateral to reduce its credit risks.

Concentrations arise when a number of counterparties, or related shareholders, are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentrations of risks, the Bank focuses on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. See "Credit Risk" below.

Credit Risk

Definition: Credit risk is the risk that a borrower or counterparty will be unable to pay amounts in full or in part when due. Credit risk arises mainly in the context of the Bank's lending activities.

Mitigation: The general principles of the Bank's credit policy are outlined in the Credit Policies. The Credit Policies also outline credit risk control and monitoring procedures and the Bank's credit risk management systems. The Credit Policies are reviewed annually or more frequently if necessary. As a result of these reviews, new procedures addressing the standards and methodology for loan loss provisioning pursuant to IFRS requirements were implemented, new loan restructuring tools were introduced and the loan terms were tightened. The Bank also uses the NBG's provisioning methodology in order to comply with NBG requirements.

The Bank manages its credit risk by placing limits on the amount of risk accepted with respect to individual corporate borrowers or groups of related borrowers, liability of insurance companies, types of banking operations and by complying with the exposure limits established by the NBG. The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for the loan impairment. The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements. The exposure to financial institutions is managed by limits covering on and off-balance sheet exposures and by settlement limits with respect to trading transactions such as foreign exchange contracts, etc.

The Credit Committees approve individual transactions and establish their credit risk categories and provisioning rates. The Deputy CEO (Chief Risk Officer) and Credit Risk Management Department reviews the credit quality of the portfolio and sets provisioning rates, in consultation with the Bank's CEO and Deputy CEO (Finance), on a monthly basis.

The Bank's credit quality review process provides early identification of possible changes in the creditworthiness of counterparties, including regulator collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The Bank makes available to its customers guarantees/letters of credit which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee/letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

Loan Approval Procedures

The procedures for approving loans, monitoring loan quality and for extending, refinancing and/or restructuring existing loans are set out in the Bank's Credit Policies that are approved by the Supervisory Board of the Bank and/or the Management Board of the Bank. The Credit Committees approve individual transactions and establish credit risk categories and provisioning rates. The Bank evaluates Corporate Banking Clients on the basis of their credit history, business operations, market position, management, level of shareholder support, financial condition, proposed business and financing plan and on the quality of the collateral offered. The appropriate level of the relevant Credit Committee is responsible for making decision for loan approval based on credit memorandum, and where appropriate, credit risk managers' report. The loan approval procedures for Retail Banking loans depend on the type of retail lending product.

Applications for consumer loans, including credit cards, and auto loans are treated under the "scoring" approval procedure. While certain loans of up to GEL 6,000 are approved by the scoring system, the appropriate Credit Committee will determine the amount, terms and conditions of other loans. Applications for mortgage loans by Retail Banking clients are completed by the mortgage loan officer and submitted to the Credit Risk Manager, who evaluates the credit risks and determines the amount, terms and conditions of the loan, which must be approved at the appropriate Credit Committee level. In the case of microfinancing loans, officers evaluate loan applications, prepare a project analysis and submit proposals to the appropriate Credit Committee which makes the final decision. Credit Committee members have equal voting authority and decisions are approved by a simple majority of votes.

The Bank has conservative credit approval processes and underwriting criteria, all of which are intended to maintain the quality of its assets as its loan portfolio grows.

Since 2004, the Bank, jointly with certain other Georgian banks and with the Credit information Group, a provider of Credit information solutions, established JSC Credit Information Georgia (CIG), that serves a centralised credit bureau in Georgia. Since 2009, all the participating banks share and contribute positive and negative customer credit information with CIG.

Collateral

The Bank typically requires credit support or collateral as security for the loans and credit facilities that it grants. The main forms of credit support are guarantees and rights to claim amounts on the borrower's current account with the Bank or other assets. The main forms of collateral for corporate lending are charges over real estate properties, equipment, inventory and trade receivables and the main form of collateral for retail lending is a mortgage over residential property. In the case of corporate loans, the Bank usually requires a personal guarantee (surety) from the borrower's shareholders. Under the Bank's internal guidelines, collateral should be provided (where it is required) to cover outstanding liabilities during the entire duration of a transaction. As of 31 December 2013, 88.5% of the Group's loans to clients were collateralised. An evaluation report of the proposed collateral is prepared by the Asset Appraisal and Disposal department and submitted to the appropriate Credit Committee, together with the loan application and credit risk manager's report. When evaluating collateral, the Bank discounts the market value of the assets to reflect the liquidation value of the collateral.

Measurement

The Bank's compliance with credit risk exposure limits is monitored by the Credit Risk Management department on a continuous basis. Exposure and limits are subject to annual or more frequent review. The Bank establishes provisions for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The Bank creates provisions by reference to the particular borrower's financial condition and the number of days the relevant loan is overdue. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by an adjusted provision account. The determination of provisions for impairment losses is based on an analysis of the assets at risk and reflects the amount which, in the judgement of the Bank's management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of financial assets.

Provisions are made against gross loan amounts and accrued interest. Under the Bank's internal loan loss allowance methodology, which is based upon IFRS requirements, the Bank categorises its loan portfolio into significant and non-significant loans. Significant loans are defined as loans in the amount of GEL 600,000 or more and non-significant loans are defined as loans less than GEL 600,000. The Credit Risk Management department makes an individual assessment of significant loans and loans with category A rating are given a collective assessment rate. All significant loans other than category A are provisioned individually depending on the category they fall in. Categories are determined according to borrower's financial performance business performance, leverage, credit history, quality of management and shareholders' support. In addition, the loan to collateral ratio and quality of collateral may affect the provisioning rates of individually assessed loans. All non-significant loans are divided into different groups (for example mortgage, consumer, microfinancing loans).

All loans in range of GEL 100,000–600,000 with overdue days more than 10 days are provisioned individually and non-significant loans that are overdue more than 30 days are provisioned individually based on overdue days. All non-impaired non-significant loans, as well as non-impaired prime rated significant loans, are assessed collectively within the sub-loan portfolio categories based upon historical loss rates. Non-significant loans which are overdue for more than 150 days are written off automatically, except for mortgage loans which, since June 2009, are written off once overdue for more than 365 days. Significant loans may be written-off following an assessment by the Deputy CEO, Chief Risk Officer and the Credit Risk Management department, in consultation with the Bank's CEO and Deputy CEO, Finance.

As of January 2014, the Bank implemented a new provisioning methodology that is based on statistical assessment of Probability of Default (PD) and Loss Given Default (LGD) for each of the loan type. The management believes that the new methodology is a refinement of the existing methodology and will allow better allocation of Cost of Risk between different products. The overall impact of the change in methodology on provisioning rate and on financial statements is not going to be material. The new methodology was developed in consultation with Deloitte. Deloitte was a provider of IT solution – fineVare.

Liquidity Risk

Definition: Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

Monitoring: Liquidity risk is managed through the ALCO-approved liquidity framework. Treasury manages liquidity on a daily basis. In order to manage liquidity risk, it performs daily monitoring of future expected cash flows on customers' and banking operations, which is a part of the assets/liabilities management process. The Finance Department prepares and submits monthly reports to the ALCO. The ALCO monitors the proportion of maturing funds available to meet deposit withdrawals and the amounts of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk management framework models the ability of the Bank to meet its payment obligations under both normal conditions and during a crisis situation. The Bank has developed a model based on the Basel III liquidity guidelines. This approach is designed to ensure that the funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The liquidity management framework is reviewed from time to time to ensure it is appropriate to the Bank's current and planned activities. Such review encompasses the funding scenarios modelled, the modelling approach, wholesale funding capacity, limit determination and minimum holdings of liquid assets. The liquidity framework is reviewed by the ALCO prior to approval by the Bank Management Board.

The Finance Department also undertakes an annual funding review that outlines the current funding strategy for the coming year. This review encompasses trends in global debt markets, funding alternatives, peer analysis, estimation of the Bank's upcoming funding requirements, estimated market funding capacity and a funding risk analysis. The annual funding plan is reviewed by the Bank Management Board and approved by the Bank Supervisory Board as part of the annual budget. The Funding and Treasury departments also review, from time to time, different funding options and assess the refinancing risks of such options.

Borrowed funds maturity breakdown

USD, millions	2014	2015	2016	2018	2019	Change year-on-year
Eurobonds	–	–	–	400.0	–	–
Senior Loans	68.7	67.6	58.7	36.4	12.9	4.8
Subordinated Loans	–	–	–	35.0	10.0	50.1
Promissory Notes	3.0	2.8	–	–	–	–
Total	**71.7**	**70.4**	**58.7**	**471.4**	**22.9**	**54.9**
% of Total assets as of 31 December 2013	1.9%	1.9%	1.6%	12.6%	0.6%	1.5%

Mitigation: The Bank's capability to discharge its liabilities is dependent on its ability to realise an equivalent amount of assets within the same period of time. The Bank maintains a portfolio of highly marketable and diverse assets that it believes can be easily liquidated in the event of an unforeseen interruption of cash flow. It also has committed lines of credit that it can access to meet its liquidity needs. Such lines of credit are available through the NBG's refinancing facility. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted. As of 31 December 2013, in line with the NBG's requirements, 15% of customer deposits in foreign currencies were set aside as minimum reserves. In addition, the Bank maintains a minimum average balance of 10% of its customers' deposits in Georgian Lari at its correspondent account at the NBG. For wholesale funding, the NBG requires the Bank to set aside 15% of its unsubordinated foreign currency wholesale funding for borrowings with a remaining maturity of less than one year, 5% for borrowings with a remaining maturity of one to two years and 10% of its unsubordinated Georgian Lari wholesale funding for borrowings with a remaining maturity of less than one year.

Funding: In the Georgian marketplace, the majority of working capital loans are short-term and granted with the expectation of renewal at maturity. As such, the ultimate maturity of assets may be different from the analysis presented elsewhere. In addition, the maturity gap analysis does not reflect the historical stability of current accounts.

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

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

As of 31 December 2013, the Group's total consolidated amounts due to customers was GEL 3,117.7 million (US$1,795.6 million) (as compared to GEL 2,693.0 million and GEL 2,735.2 million as of 31 December 2012 and 2011, respectively) and represented 59.0% (as compared to 58.6% and 71.0% as of 31 December 2012 and 2011, respectively) of the Group's total liabilities. Included in amounts due to customers are term deposits of individuals. In accordance with Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. In case of early withdrawal, the interest on deposit is foregone or reduced. As of 31 December 2013, total amounts due to credit institutions were GEL 1,886.1 million (US$1,086.3 million) (as compared to GEL 1,657.2 million and GEL 921.2 million as of 31 December 2012 and 2011, respectively) and represented 35.7% (as compared to 36.1% and 23.9% as of 31 December 2012 and 2011, respectively) of the Group's total liabilities. Amounts due to credit institutions are taken from a wide range of counterparties.

The Bank Management Board believes that each of the Group's and the Bank's liquidity is sufficient to meet each of their present requirements. For information on the Group's liquid assets, liabilities and maturity profile of the Group's financial liabilities as well as further information on the liquidity risk of the Group see Note 27 of the Notes to Consolidated Financial Statements of this Annual Report.

Market Risk

Definition: The Bank is exposed to market risk (including currency exchange rate risk and interest rate risk), which is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk exposure arises from mismatches of maturity and currencies between the assets and liabilities, all of which are exposed to market fluctuations.

Mitigation: The general principles of the Bank's market risk management policy are set by the ALCO. The Bank aims to limit and reduce the amount of possible losses on open market positions which may be incurred by the Bank due to negative changes in currency exchange rates and interest rates. The Bank classifies exposures to market risk into either trading or non-trading positions. Trading and non-trading positions are managed and monitored using different sensitivity analyses. In order to address these risks, the ALCO specifically establishes VAR limits on possible losses for each type of operation (currently the VAR limit is set for foreign currency exchange operations only) and the Quantitative Risk Management and Risk Analytics monitors compliance with such limits.

Currency Exchange Rate Risk. Currency exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position. The Bank's currency risk is calculated as an aggregate of open positions and is controlled by setting a VAR calculation (established by the ALCO) with respect to the Bank's currency basket. The Bank uses the historical simulation method based on 400 business day statistical data. Its open currency positions are managed by the Treasury Department on a day-to-day basis and are monitored by the Quantitative Risk Management and Risk Analytics Department. The ALCO sets open currency position limits with respect to both overnight and intra-day positions and stop-loss limits. Currently, the Bank's proprietary trading position is limited by the ALCO to a maximum of 15.0% of the Bank's NBG total regulatory capital. The open currency position is also limited by ALCO to a VAR of 7 basis points of its NBG regulatory capital for a one-day trading period with a 95.0% "tolerance threshold". The ALCO limits are more conservative than NBG's requirements, which allow banks to keep open positions of up to 20.0% of regulatory capital. The Bank additionally limits open foreign currency positions other than US Dollars and Lari to 1% of the regulatory capital. The Bank also applies sensitivity stress tests to its open currency positions to estimate potential negative impact on its net assets and earnings.

Interest Rate Risk. The Bank has exposure to interest rate risk as a result of lending at fixed interest rates in amounts and for periods which differ from those of term borrowings at fixed and floating interest rates. Interest margins on assets and liabilities having different maturities may increase or decrease as a result of changes in market interest rates.

Similarly to other Georgian banks, the majority of the Bank's assets and deposits have fixed interest rates. In order to minimise interest rate risk, the Bank monitors its interest rate (re-pricing) gap and maintains an interest rate margin (net interest income before impairment of interest-earning assets divided by average interest-earning assets) sufficient to cover operational expenses and risk premium. Within limits approved by the Bank Supervisory Board, the ALCO approves ranges of interest rates for different maturities at which the Bank may place assets and attract liabilities. Compliance with the Bank's interest rate policy is monitored by the Quantitative Risk Management and Risk Analytics Department.

As of 31 December 2013, the Group's floating rate borrowings accounted for 8.1% of the Group's total liabilities.

The Bank is also subject to prepayment risk, which is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall. The Group reviews the prior history of early repayments by calculating the weighted average effective rate of early repayments across each credit product, individually, applying these historical rates to the outstanding carrying amount of each loan product as of the reporting date and then multiplying the product by the weighted average effective annual interest rates for each product. This allows the Bank to calculate the expected amount of unforeseen losses in the case of early repayments. For further information on the Group's market risk see Note 27 of the Notes to Consolidated Financial Statements of this Annual Report.

Operational Risk

Definition: Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank aims to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and training and assessment processes, including the use of internal audit.

Mitigation: The Bank manages its operational risks by establishing, monitoring and continuously improving its policies and procedures relating to the various aspects of the Bank's cash, payments, accounting, trading and core processing operations and data back-up and disaster recovery arrangements.

The Bank has an integrated control framework encompassing operational risk management and control, AML compliance, corporate and information security and physical security, each of which is managed by a separate department, and an internal audit function for the Bank.

The Operational Risk Management and Control Department is responsible for identification and assessment of operational risk categories within the Bank's processes and operations, detecting critical risk areas or groups of operations with an increased risk level, developing response actions and the imposition of restrictions in critical risk zones to mitigate identified risk and developing business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibilities. The Operational Risk Management and Control Department is also responsible for developing and updating policies and procedures and ensuring that these policies and procedures meet legal and regulatory requirements and help to ensure that material operating risks are within acceptable levels. It also monitors and periodically reviews the Bank's internal control systems to detect errors or infringements by the Bank's departments and divisions. The Head of the Operational Risk Management Department, who reports to the Deputy CEO (Chief Risk Officer), is responsible for the oversight of the Bank's operational risks.

SUSTAINABILITY LIES AT THE HEART OF OUR BUSINESS

For more information on our environmental and social policy, visit www.bogh.co.uk/corporate-governance

AS A LEADING FINANCIAL INSTITUTION IN GEORGIA, WE UNDERSTAND OUR RESPONSIBILITY NOT ONLY TO SHAREHOLDERS BUT TO SOCIETY AT LARGE. THE CONCEPT OF SUSTAINABILITY LIES AT THE HEART OF OUR BUSINESS AND REFLECTS OUR CONTRIBUTION TO SUSTAINABLE DEVELOPMENT – DEVELOPMENT THAT MEETS THE NEEDS OF THE PRESENT WITHOUT COMPROMISING THE ABILITY OF FUTURE GENERATIONS TO MEET THEIR OWN NEEDS.

We consider sustainability to be integral to the growth of our business. Our sustainability agenda allows us to be profitable as well as environmentally and socially responsible at the same time. By implementing a sustainability approach in our activities, we foster long-term relationships with our main stakeholders by providing high return on investment for shareholders, satisfying the financial needs of customers, developing employees and contributing to the economic and social welfare of local communities, whilst taking into account our environmental footprint.

In order to effectively manage the Group's direct and indirect impact on society and the environment, the Board of Directors adopted an Environmental and Social Policy in 2012. This policy defines the Group's strategy to develop solid management controls which will conserve natural resources, minimise health and safety risks, and provide employees with equal development opportunities, fair compensation and benefits. We are pioneering sustainability practices in our operations and are constantly seeking new ways to improve our performance.

Social matters

The Group considers the interests of its main stakeholders, which include customers, shareholders, employees, lenders, and society, in the development of strategy and operations improvement processes. We strive to positively contribute to society through the entire scope of our business activities by developing socially oriented products and services, implementing responsible approaches to our business operations, and carrying out sponsorship and charity activities.

Socially Oriented Products and Services

Corporate Banking

In order to efficiently manage its indirect environmental and social impact, the Bank prioritised the integration of sustainable finance principles into its credit risk management procedures. In 2013, the Bank updated its Environmental and Social Risk Management Procedures in order to ensure the proper application of appropriate, risk-based and sector-specific environmental and social risk assessment practices to its commercial lending activities. These procedures are now being integrated into the Bank's credit risk management process and soon will be routinely applied to all commercial transactions.

The Environmental and Social Policy and Risk Management Procedures, along with other tools necessary for their implementation, comprise the core components of the Bank's Environmental and Social Risk Management System (ESMS). The Bank has appointed an Environmental and Social Coordinator, responsible for ensuring the proper operation and maintenance of the ESMS, and an Environmental and Social Risk Manager, who is responsible for the practical, day-to-day implementation of the Bank's ESMS.

We implement the following procedures to ensure the operation and maintenance of the ESMS:

- We refrain from financing environmentally or socially sensitive business activities mentioned in the exclusion lists of such Development Finance Institutions as EBRD, IFC, DEG, FMO, ADB and others.
- We aim at assessing the relative level of environmental and social risk associated with clients' businesses. We require certain customers to develop and implement specific environmental or social action plans to avoid or mitigate their environmental and social impact and adhere to specific monitoring and reporting requirements that we set in order to minimise environmental and social risk. These requirements are to be included as covenants in agreements between certain of our customers and the Bank.
- We aim at regular monitoring of environmental and social risks associated with the Bank's activities, and assessing clients' compliance with the terms of respective agreements.

The Bank continues to support Georgia's emerging economy by financing industries that are strategically important for the development of the nation.

Infrastructure development. In 2013, the Bank financed the East-West Highway rehabilitation project in the amount of US$15.7 million. East-West Highway is the main highway of the country, which links the regions between Eastern and Western Georgia and shortens the journey time needed to travel across the country. The Bank also provided US$2.5 million for the renovation of roads in the Kutaisi, Kobuleti and Batumi regions.

The tourism sector has become a vital part of the Georgian economy as demonstrated by its significant growth since 2000. In 2013, we continued to finance the hospitality sector of Georgia by providing loans for hotel construction in Batumi (US$33.4 million) and Tbilisi (US$23.0 million).

Additionally, we continued to support construction works in the regions. In 2013, we granted extra guarantees, relating to the renovation of more than 30 public and civil buildings, in the total amount of US$8.9 million and GEL 8.5 million.

Healthcare and education support. Continuous improvement in educational and medical services in Georgia remains a top priority for the country's strategic development. In 2013, the Bank financed the construction of a unique medical facility that will provide neurosurgery and oncology treatment in Tbilisi in the amount of US$9.5 million and a new multi-profile hospital in Gori which will provide high quality medical services to the local rural and urban population.

One of Georgia's leading private universities received US$3.5 million as a financing facility from the Bank in order to finance capital expenditures in 2013. In addition, the Bank participated in an EBRD programme which focuses on the renovation of schools, resulting in the improvement of schools' energy efficiency.

Information and communications technology. In 2012, the Bank approved a credit facility in the amount of US$20 million in order to expand internet coverage in Georgia and, as a result, improve access to information and communications technology across the population. In 2013, US$7.3 million of the approved credit facility was disbursed in relation to the construction of a fibre-optic backbone cable across Georgia.

Retail Banking

The Bank continues to innovate and come up with a wide range of socially oriented financial products and services that bring added value to individuals and small and medium-sized businesses (SMEs) and meet their respective needs.

Financial services remain inaccessible to a large number population in Georgia due to both economic and geographic reasons. Our Express Banking strategy, characterised by its simple and affordable products and services, seeks to address this issue. The principal achievements of this strategy are as follows:

- As at 31 December 2013, the Bank had a network of 985 Express Pay Terminals, 44 Express and 24 Metro branches which are located all over the country including remote mountain regions.
- Express financial products such as Express card, Express deposit and Express loan are uncomplicated products, which are easily accessible and affordable to a segment of the population that would not have access to banking products and services otherwise. Since the beginning of the Express Banking service in December 2011, the Bank has attracted 526,376 clients by 31 December 2013, of which c. 121,000 were attracted in 2013 alone.

As part of the Express Banking service, we prioritise improving financial literacy of our customers. In every Express branch, our current and potential customers can receive financial advice and educational support from our employees free of charge. In 2014, we plan to open a Centre of Financial Education within the Bank of Georgia University, where customers will have an opportunity to learn how to plan their budgets, set financial goals, assess financial risks, manage cash flow, and use financial instruments.

The Bank also strives to improve the access to its branches for people with disabilities. In 2014, we plan to finance the adapting of 14 service centres to their needs in an amount of GEL 180,000.

Youth support. We have developed a wide range of financial products to support young people in Georgia. For example, through the special conditions of the Child deposit, we provide parents with an opportunity to open deposit accounts for their children, starting with only GEL 10. These deposit accounts can be opened for two years minimum at any time from a child's birth until the age of 18. The annual interest rate (9.25% for GEL and 5.25% for foreign currency) is added to the initial deposit. In 2013, we opened 16,769 child deposit accounts.

The Bank also offers special products that allow the youth to access secondary and higher education. Examples of such products are school and student loans with favourable terms that do not require any financial guarantees and collateral. The total amount of school and student loans granted in 2013 was GEL 56,747 and GEL 925,757 respectively.

Another example of a product supporting youth is a student card which provides special benefits for students of Georgian universities. The benefits include discounts for public transportation, 5% interest rate for savings on the card, free distance banking services and others. In 2013 the Bank issued 93,994 of these cards. In addition, every three months, the Bank awards 20 holders of student cards with three-month scholarships to support them financially during their study.

SME support. We continue to provide financing to SMEs, a backbone of the Georgian economy that ensures sustainable development of our country. Apart from our own microfinancing and SME loan programmes, we also participate in various programmes that support entrepreneurs. In 2013, the Bank partnered with a non-profit Agricultural Projects Management Agency which supports agricultural SMEs together, the Bank co-financed agricultural loans at fixed annual interest rates which were significantly lower than previous loans SMEs received from other institutions. In 2013, the total amount of Bank loans to SMEs was GEL 644,485,852, of which GEL 123,329,405 was issued to female entrepreneurs.

Combined with supporting SMEs financially, the Bank also plans to organise educational events and provide financial and business knowledge related advice to entrepreneurs in order to enhance their finance management and accounting skill as well as enhance their knowledge and skills in connection with legal documentation, business development, sales and marketing.

Moreover, the Bank continues to participate in EBRD and IFC projects aimed at supporting local entrepreneurs. In 2013, we continued our partnership with EBRD by providing specialised energy-efficiency credits to the SME sector, thus allowing enterprises to upgrade their machinery. This way, the partnership promotes efforts of the SME sector to decrease their energy use and switch to energy efficient low polluting technologies. Total amount of loans granted for these purposes in 2013 amounted to GEL 25,757,664.

Mass retail. Energy efficiency consumer and mortgage loans were also provided to various groups of retail customers including households, drivers and others committed to energy efficiency purposes. For example, the favourable terms of the instant energy instalment included the opportunity for a borrower to receive a 10% subsidy of a loan principal amount.

Affordable Housing

Currently, the Georgian real estate market is vulnerable to various economic and financial uncertainties. Numerous construction projects remain unfinished for long periods of time while there is a strong growing demand for housing from Georgian population. In response to this increasing demand, the Group's real estate development business, m2 was established in order to offer affordable housing to the emerging middle class in Georgia, especially young families, while at the same time holding and managing properties of defaulted borrowers. Currently, m2 is completing its second successful project for the development and sale of affordable residential apartments. m2 uses an innovative approach to design and construction processes so that each square metre is distributed efficiently and fits customers' needs and wishes.

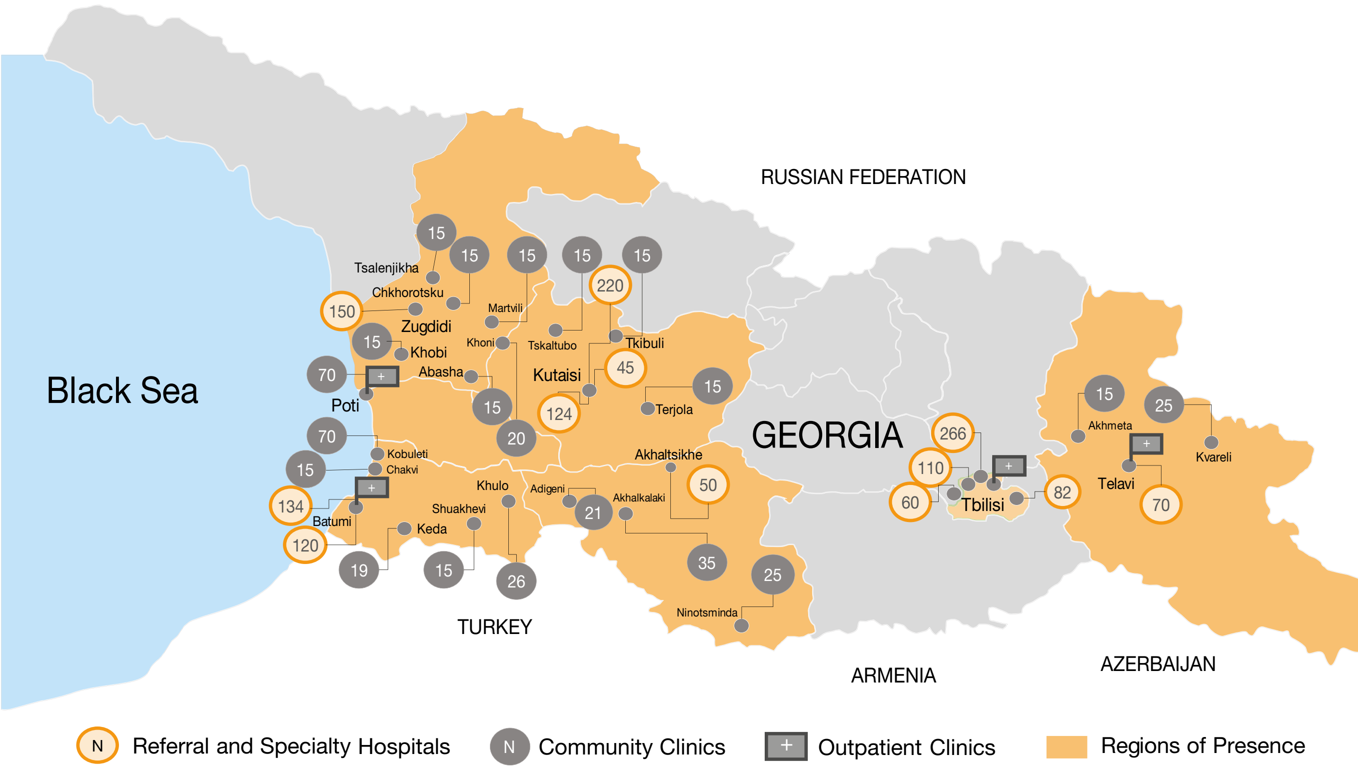
Insurance and Healthcare

A network of medical centres and hospitals, "My Family Clinic" (MFC) comprises the Group's healthcare business. MFC provides coverage to approximately 45% of the Georgian population, predominantly in Western Georgia. Its clinics are located across the country, including remote mountain regions, and provide access to high quality medical services. MFC aims to ensure accessibility of medical services is ensured by scheduling regular visits by specialists to small towns and villages and by providing patients with transportation to larger clinics in urgent cases and in cases when more specialised treatment is required.

MFC also provides free regular medical examinations in various locations across the country, including but not limited to Batumi, Khulo, Keda, Shuakhevi, Poti, Kvareli and Telavi. In addition, MFC specialists deliver free medical services, including examinations and treatments for socially and economically disadvantaged parts of the population. In 2013, free medical treatment was given to the elderly at various nursing homes in the Adjara, Kakheti and Samegrelo regions, and children in orphanages and large but low-income families across the country. Estimated financial value of these free services in 2013 amounted to GEL 90,200.

In cooperation with other healthcare institutions, MFC also arranges free blood transportation and donations for its patients.

Geographically diversified network of clinics



In 2013, as a participant of the Government programmes and a signing party to the Cooperation Memorandums with the Ministry of Internally Displaced Persons Accommodation and Refugees and the Ministry of Corrections and Legal Assistance, MFC conducted free medical examinations of 1,118 Internally Displaced Persons (IDPs) as well as minors and women prisoners. In 2014, MFC plans to sign another memorandum pursuant to which it will provide free medication and extra training to personnel at orphanages and will facilitate transportation of minors to hospitals.

In addition, the Group's insurance business participated in the Government insurance programme in 2013. Through this programme, Aldagi served more than 400,000 policyholders represented by people below the poverty level, the elderly, children below five years of age, students, teachers, and IDPs.

Sponsorship and charity

Within its sponsorship and charity activities, the Group focuses on promoting education, conserving nature and supporting children. The Group regularly receives requests from individuals and charity organisations that seek help and we apply our best effort to be responsive. Priority is given to people who are unable to receive any support from the State or any other sources.

Currently we are developing the Group's Sponsorship and Charity Policy in order to formulate and present our vision, goals and activities with respect to the defined priorities in this area. In order to structure and maximise the efficiency of our sponsorship and charity activities we are expanding the range of instruments we use to provide financial support. In 2014 and onwards we plan to channel our sponsorship and charity through the Bank of Georgia Future Foundation.

Promoting education. The Bank contributes to the development of education via numerous initiatives. In 2013, the Bank became the first Georgian company to cooperate with the prestigious Chevening scholarship, in order to provide Georgian students with an opportunity to pursue higher education in the UK.

In 2014, the Bank plans to establish the Bank of Georgia University, the main goal of which will be to provide high quality financial and business education to various groups of the population. As part of the project, establishing Centre of Financial Education described above will improve the financial literacy of individual customers and SMEs, and the Bank is planning to grant GEL 300,000 for these purposes. Another initiative of the University will be to establish a programme for an MBA in Finance. The cost of studies will be partially subsidised by the Bank, while successful graduates will receive full internship, with the opportunity for a subsequent permanent job or career within the Bank.

In total, the Bank plans to grant GEL 1 million for supporting educational programmes in 2014.

Conserving nature. Another priority of the Group's charity activities is the preservation of wildlife diversity. Since 2010, the Bank has granted US$300,000 (US$75,000 a year) to the Caucasus Nature Fund to cover the maintenance costs of Borjomi-Kharagauli National Park (BKNP), one of the most treasured national parks in Georgia. In 2013, the Bank donated GEL 124,088 for the development and implementation of a pilot biodiversity monitoring system in BKNP, which makes us the Fund's largest corporate donor. In 2014 the Bank plans to grant an additional GEL 150,000 for environmental conservation programmes.

Supporting children. The Bank focuses its efforts on supporting children with disabilities. For many years the Bank has patronised non-governmental organisations (NGOs) which seek to enhance the quality of life for children with special needs. For example, we supported First Step Georgia, an NGO dedicated to providing direct care, public advocacy, support services and training to children with disabilities and their families. In 2014, the Bank plans to announce a grant competition for NGOs which provide education and develop infrastructure for disabled children as well as integrate them into society. The total competition fund is estimated at GEL 1 million.

MFC runs a wide range of charitable activities on a permanent basis for children with leukaemia. In 2013, MFC held a charity Venetian carnival in Batumi in cooperation with the Italian Embassy and state organisations to support children with cancer.

MFC also regularly donates personal computers to children from socially and economically disadvantaged large families. Additionally, on religious holidays we deliver presents to the newborns across the MFC's patient network.

Back in 2008, the Bank introduced the "Orange Santa" character as a part of the large-scale New Year campaign. The idea of the initiative called "Letter to Santa" was to give the Bank's Facebook fans a chance to send their message to Santa.

Employee Matters

A key factor to our success is a cohesive and professional team, capable of accomplishing the Group's objectives. We are committed to attracting and identifying the best professionals, caring and planning for their needs, investing in their development and fostering their commitment.

The HR management system ensures that the Group attracts the best talent in order to guarantee the sustainable growth of our business. The system is managed in accordance with HR Policy and Procedures which include a wide range of supporting policies:

– employee planning and recruiting;
– staff administration;
– compensation and benefits;
– code of conduct;
– employee development and training;
– human rights;
– grievance policy; and
– whistleblowing policy.

HR Policy and Procedures determine key principles, areas, approaches and methods that are crucial for building HR management systems for all our businesses. The Bank's HR management department works closely with HR managers and executives from our subsidiaries in order to ensure proper implementation of the main principles and provision of necessary support in all HR-related matters.

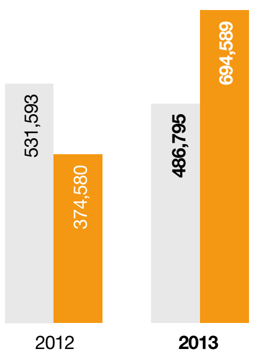
We recognise the importance of observing human rights and are committed to implementing socially responsible business practices. In 2013, we updated our Human Rights Policy which establishes priorities and control procedures in place to provide equal opportunities and prevent any sort of discrimination or harassment.

In order to improve the working environment and effectively address grievances or other employee related issues we conduct regular employee satisfaction surveys. Above all, employee feedback is used to improve our customer focus orientation and client servicing approach.

Talent attraction

Sustained development of the Group's businesses requires the strengthening of the teams of our subsidiaries both by using the Group's own significant internal resources through staff development and rotation, and by attracting external candidates. Our recruitment policy and relevant control procedures ensure an unbiased hiring process that provides equal opportunities for all candidates. According to the HR Policy, internal candidates have priority when filling vacant positions, especially in situations where there are vacancies in top and middle management. Thus, in 2013, 157 Group employees were promoted to managerial positions compared with 141 in 2012.

Total expenses for charity and sponsorship, GEL



● Charity
● Sponsorship

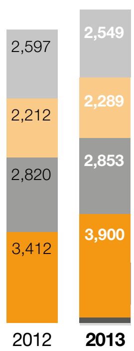
The Group's total sponsorship and charity expenses increased by 30% in 2013.

Total headcount per employee category broken down by gender

2012	Directors	Senior managers	Employees	Total
Female	7	48	7,773	7,828
Male	21	66	3,180	3, 267
Total	28	114	10,953	11,095

2013	Directors	Senior managers	Employees	Total
Female	6	53	8,448	8,507
Male	23	72	3,109	3,204
Total	29	125	11,557	11,711

Total headcount by age category



● 21-30 years old
● 41-50 years old
● Less than 20 years old
● 31-40 years old
● Over 51 years old

In order to attract young talent, we actively partner with leading Georgian business schools and universities, participate in job fairs and run extensive internship programmes aimed at the professional development of young professionals and their further employment. In 2012, Bank of Georgia established a new format of its traditional internship programme. It attracts promising graduates and provides them with the opportunity to participate in a major professional training and leadership development programmes. Interns are directly coached by the Bank's executives to help them on their path to gaining their first management positions in the near future. In 2013, the number of young professionals (under 30 years old) increased by 16% compared to 2012 and currently represents 32% of total headcount.

Training and development

To manage our employees in a way that best supports our business strategy, we seek to help our employees contribute to business performance through personal and professional development.

Following our aspiration to develop strong leaders, we have developed an extensive programme for leadership development. We provide a standard Induction Training course for employees appointed to managerial positions. This programme covers a wide range of topics including corporate values, strategy and objectives, organisational structure, HR management policies, history of the Group, specific courses for development of communication, presentation, management and leadership skills, among others. Selected mid-level and senior-level employees are provided the opportunity to receive external training in well-known training institutions outside of Georgia.

The Group's corporate learning system is comprised of a wide range of internal and external training sessions specifically designed to meet the needs of front and back office employees at the Group's subsidiaries including banking, healthcare, insurance and real estate development.

Every Group's business has developed an extensive training programme for front office employees in order to provide them with relevant skills, such as effective communication and building strong and valued client relationships. For example, the Bank's mentoring programme is part of a front office training process. Every new employee is provided with regular advice, guidance and practical instructions from an appointed mentor who later participates in the new employee's performance appraisal. Through this programme, we aim to provide individual support to our employees in achieving their professional results and improving their personal effectiveness.

MFC provides additional training to its employees that work in the specialised field of healthcare. In 2013, MFC launched a Training-Of-Trainers programme for nurses in the Imereti region. In January 2014, 30 professional nurses started conducting training for personnel of MFC's hospital network in other regions. In March 2014 MFC also established a unique training centre in the Kutaisi region that will enhance the professional knowledge and skills of local medical personnel.

Occupational health and safety

Ensuring the safety of the workplace and providing healthy working conditions are among the Group's fundamental HR management principles. The Group pays particular attention to preventive measures, such as conducting regular staff training and medical check-ups, certifying workplaces, and promoting healthy lifestyle.

The Group's real estate development business is associated with high health and safety risks for contractors on sites. In order to minimise such risks, m2 established a Health and Safety Policy and management procedures ensuring implementation of the health and safety measures at all worksites. The policy contains a range of precautions that seek to prevent any accidents related to the m2's contractors or community member injuries, as well as property damage and incidents caused by the equipment failure.

In order to enhance the awareness of employees and contractors regarding health and safety risks associated with the construction process, m2 conducts regular training and educational seminars. In 2013, the number of health and safety training hours amounted to approximately 500. In addition, m2 publishes brochures and booklets with warnings and special rules to be followed when working on sites.

Respective control procedures include quarterly audits by external health and safety consultants and internal monthly inspections of m2 worksites. In addition, m2 has a comprehensive reporting procedure for health and safety concerns. In 2012 and 2013, no work-related fatalities occurred at the company's construction sites whilst injury incidents dropped from three in 2012 to zero in 2013.

With regard to emergency preparedness and response, m2 established an Emergency Management Plan. It outlines possible scenarios during emergency situations and determines specific strategies for the Company's employees, contractors and visitors on how to react when in a crisis situation.

Environmental Matters

The Group recognises that its operations have both an indirect and direct impact on the environment and therefore seeks to establish management approaches which will help it become a more environmentally friendly institution. Being the largest financial institution in Georgia, the Bank produces significant indirect environmental impact through the projects which it finances. In order to properly manage this impact, the Bank has implemented an Environmental and Social Policy and Environmental and Social Policy and Risk Management Procedures, as described in the "Social matters" section.

As for direct environmental impact, we believe that the impact of the banking and insurance businesses is not significant. Nevertheless, we undertake a number of measures to reduce electricity, paper, water, and fuel consumption. For example, in 2013 we upgraded our lighting system in the Bank's headquarters by installing energy-saving bulbs and implemented KNX (EIB) System management, which not only helped us minimise our environmental impact but also reduced our energy costs by GEL 4,000-GEL 5,000 per month. We plan to implement this system in all of the Bank's branches during 2014.

The Group is also in the process of automating its operational processes in order to reduce the volume of printed documents and consequently minimise the overall use of paper. The Bank continues to acquire new printers which offer double-sided printing by default.

We are considering replacing part of our car fleet, which runs on petrol, with electric vehicles. In 2013, we acquired two Tesla cars, which are more environmentally friendly.

We aim to reduce greenhouse gas emissions resulting from our operations. Refer to the Directors' report for more detailed information on the issue.

The most significant direct impact on the environment within the Group is created by our real estate development business, m2. m2 addresses industry-specific environmental issues and undertakes appropriate measures to manage them.

Focusing on enhancing resource efficiency of its apartment buildings, m2 started two new development projects with financial support from IFC. m2 not only follows high environmental standards that IFC imposes on its borrowers but has also become a participant of the IFC-Canada Climate Change Program[1] and thus meets all mandatory requirements of the programme regarding green building construction. Aiming at increasing the efficient use of energy, water, and materials, m2 installs energy efficient lighting systems and uses double glazed windows and other modern insulation materials, thus reducing the U-value of constructed buildings to 0.21 W/m^2K. It is expected that utility costs for these buildings will be reduced up to 23% compared to an average residential building in Georgia.

In order to minimise negative impact to the environment caused by construction process, m2 has adopted an Environmental and Social Management Plan which helps identify the environmental impacts of its activities and define measures to prevent them as outlined below.

m2 is currently working on establishing management reporting systems on environmental aspects. We expect that environmental data will be available for the 2014 reporting year.

MFC's direct environmental impact is mainly characterised by medical waste which needs special treatment and safe disposal. MFC implemented procedures that are in line with the Georgian legislation which defines risk categories of medical waste and establishes appropriate procedures for its treatment, storage and disposal. MFC strives to improve its efficient and thus outsources medical waste management to a company specialising in medical waste disposal. The total amount of generated medical waste in 2013 amounted to 55 tonnes compared with 30 tonnes in 2012, an increase which correlated with the significant expansion of MFC's hospital network.

1. The IFC-Canada Climate Change Program, established in 2011, is a partnership between the Government of Canada and IFC to promote private sector financing for clean energy projects, through the use of concessional funds to catalyse investments in renewable, low-carbon technologies that would not otherwise happen (www.ifc.org).

Environmental aspect	Preventive measures
Dust	– Introducing speed limits on unmade roads – Damping down using water bowsers with spray bars – Sheeting of construction materials and storage piles – Using defined moving routes and reductions in vehicle speed limits where required
Spills and leaks during refuelling	– Installing a sealed drainage system at refuelling area – Providing suitable tanks (e.g. double skinned), bunds and impermeable liners at fuel stores and refuelling points – Using drip trays for static plant (e.g. generators and pumps) – Training staff in refuelling and pump operations – Shortening the refuelling line as much as possible – Performing regular maintenance checks of hoses and valves – Conducting follow up procedures for proper and safe refuelling by operators
Air emissions	– Ensuring that new vehicles comply with the current European Union emissions standards at the time of purchase – Implementing a regular maintenance programme to ensure all new vehicles continue to comply with relevant EU emissions standards – Ensuring that older vehicles are maintained in order to eliminate extra emissions as much as reasonably practicable – Strictly enforcing speed limits in order to optimise fuel consumption and production of exhaust fumes, and minimise dust generation on unpaved surfaces.
Water Contamination	– Locating fuel stores and refuelling points further away from watercourses and aquifers
Fire	– Providing a fire extinguisher adjacent to each item of mobile plant and equipment
Noise	– Fitting effective silencers at all plant and machinery, and providing ear defenders and/or plugs on sites – No idling or revving of plant engines and all vehicles – Using controlled venting, silenced equipment and absorbing screens – Working at preferred times of day (daylight hours Monday to Saturday, unless communicated to the local community and authorities)
Vibration	– Operating the equipment within the manufacturer specification limits and limiting any overuse
Depletion of the stratospheric ozone layer	– Ensuring that no ozone depleting substances (ODS) such as chlorofluorocarbons (CFCs) and hydrochlorofluorocarbons (HCFCs) or products with known global warming potential are used

STRENGTH THROUGH DIVERSITY

COMMITTED TO STRONG GOVERNANCE

Neil Janin
Chairman

Irakli Gilauri
Chief Executive Officer

Kim Bradley
Independent Non-Executive Director

Alasdair Breach
Independent Non-Executive Director

IN THIS GOVERNANCE SECTION

David Morrison
Senior Independent Non-Executive Director

Bozidar Djelic
Independent Non-Executive Director

Tamaz Georgadze
Independent Non-Executive Director

Kakhaber Kiknavelidze
Independent Non-Executive Director

A ROBUST GOVERNANCE STRUCTURE UNDERPINS THE DELIVERY OF OUR STRATEGIC OBJECTIVES

Dear Shareholder,

AS A FTSE 250 COMPANY WITH A PREMIUM LISTING ON THE LONDON STOCK EXCHANGE, IT IS OUR BOARD'S RESPONSIBILITY BOTH TO PRACTISE HIGH STANDARDS OF CORPORATE GOVERNANCE AND TO CONTRIBUTE TO PROMOTING AN ENVIRONMENT WHERE ROBUST PROCESSES ARE IN PLACE.

Such processes need to be underpinned by the right culture, values and behaviours permeating throughout the Group, based on openness, transparency and accountability, as well as constructive challenge and collaboration. Our Board and its Committees play a particularly important role by setting the tone at the top, and our CEO and other key executives are responsible for seeing that this culture trickles down.

We do not see governance as a box-ticking exercise or simply related to processes and controls, but rather as a guide to ensure we do the right things in the right way.

Here are a few of the core ideas that underpin our Board and governance philosophies:

– Our Chairman and CEO positions are separate and will not be filled by a single person.
– We want our senior executives focused on our business and not involved in potential conflicts, so they are not allowed to hold equity interests in any Georgian company without express Board approval.
– We want a diverse Board both in terms of experience, geographic origin and gender.

- Board members should do site visits and attend an off-site meeting with Management at least once a year to better understand the business and influence strategy.
- Board succession planning is actively managed and performance reviews are conducted regularly.

During 2013, our governance framework has been amended to take into account the changes introduced by the UK Corporate Governance Code (the Code) and the commencement of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations). As a result of the strength of our embedded corporate governance framework and our existing policies, procedures and processes, only minor enhancements were required.

The main change has been how we report these activities within the Annual Report and Accounts. The most significant reporting changes have been to our Directors' Remuneration Report, together with the introduction of the binding vote on our Remuneration Policy. This additional reporting also includes the statement made by the Directors on page 100 that they consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable. The processes that underpin and support the Directors' confidence in making this statement are long-established. Additional disclosures in respect of how our Audit Committee addresses the key issues it has considered during the year can be found on pages 76 to 79.

As mentioned earlier in this Annual Report we welcomed three Independent Non-Executive Directors in December last year. Our new Directors bring a wealth of experience in retail and commercial banking, real estate, asset management and finance. We believe their expertise will further enhance the effectiveness of the Board and our Committees. Mr Bradley, Mr Georgadze and Mr Djeclic will be proposed to shareholders for election as Directors at our next Annual General Meeting on 28 May 2014. We are pleased to say that all of our six Independent Non-Executive Directors are independent. While we have maintained our interesting diversity of professional experience and geographic focus and origin, we lost our sole female Board member in 2013. We are committed to gender diversity and will be seeking to add one or more women to the Board in the near term.

Good corporate governance contributes to the long-term success of a company, creating trust and engagement between the company and its stakeholders. The Group is committed to its customers and clients and works hard to act ethically and responsibly in all of its business dealings.

We also strive to create an inclusive environment for all employees which helps us attract, retain and develop the best talent, and encourages an environment where a diverse range of people are motivated to be at their best every day. We have a performance-based culture, which enables us to sustain strong business performance for the long term.

Engagement with our shareholders. We meet regularly with institutional investors and analysts throughout the year and the Board receives regular reports from the Investor Relations department on its activities, and in particular on the feedback being received from investors, analysts and advisers. In the first quarter of this year, our Remuneration Committee met with shareholders as well as shareholder advisory groups to discuss its remuneration structure and seek feedback.

We firmly believe our Board is committed to the highest standards of corporate governance and will continue to develop its skills and capabilities, as well as promote the long-term success of the Group, over the course of 2014 and beyond.

Neil Janin
Chairman
10 April 2014

David Morrison
Senior Independent Non-Executive Director
10 April 2014

From left to right:
Neil Janin
Chairman of Bank of Georgia Holdings

David Morrison
Senior Independent Non-Executive Director

GOVERNANCE: DIRECTORS' GOVERNANCE REPORT

ONE OF THE BOARD'S PRIMARY RESPONSIBILITIES IS TO ENSURE THAT THE COMPANY IS RUN IN THE BEST LONG-TERM INTERESTS OF OUR SHAREHOLDERS AND WIDER STAKEHOLDERS. WE BELIEVE THIS CAN ONLY BE ACHIEVED IF THE ACTIVITIES OF THE GROUP ARE SUPPORTED BY APPROPRIATE CORPORATE GOVERNANCE PROCESSES. OUR FRAMEWORK OF CORPORATE GOVERNANCE IS REGULARLY REVIEWED IN LIGHT OF CHANGES IN BGH'S STRATEGY AND CORPORATE GOVERNANCE DEVELOPMENTS.

Application of the UK Corporate Governance Code

In September 2012, the Financial Reporting Council published the 2012 edition of the UK Corporate Governance Code (the Code), which contains broad principles and specific provisions to help boards operate in the best interests of their companies. The Financial Conduct Authority requires all listed companies to disclose how they have complied with the provisions of the Code. This Corporate Governance Statement, together with the Director's Responsibility Statement, the Going Concern Statement and the Statement of Compliance, all of which are set out on pages 100 and 101, indicate how BGH has complied with the principles of good governance of the Code and its requirements for internal control.

The Board

What is the role of the Board?

Our principal duty, collectively, is to promote the long-term success of the Group by directing management in creating and delivering sustainable shareholder value. We do this by setting the strategy and overseeing its implementation by management. While our ultimate focus is long-term growth, the Group also needs to deliver on short-term objectives and we seek to ensure that management strikes the right balance between the two.

We are mindful of our wider obligations and consider the impact our decisions will have on the Group's various stakeholders, such as our employees, our shareholders, our customers and clients, the environment and our community as a whole. In setting and monitoring the execution of our strategy, we aim to ensure that we maintain an effective system of internal control, and that management maintains an effective risk management and oversight process across the Group, so that growth is delivered in a controlled and sustainable way.

In order to ensure that we meet our responsibilities, specific key decisions have been reserved for approval by the Board. These include decisions on the Group's strategy, approval of risk appetite and capital and liquidity matters, Board membership, financial results and governance issues.
A full formal schedule of matters specifically reserved to the Board can be found on our website, at http://www.bogh.co.uk/en/corporate-governance

APPROPRIATE CORPORATE GOVERNANCE PROCESSES

BOARD MEETING ATTENDANCE

Details of Board meeting attendance in 2013 are as follows:

Board attendance	Independent	Scheduled meetings eligible to attend	Scheduled meetings attended	Additional meetings eligible to attend	Additional meetings attended
Chairman					
Neil Janin	N/A	5	4	7	7
Executive Director					
Irakli Gilauri	No	5	5	7	7
Non-Executive Directors					
David Morrison	Yes	5	4	7	7
Allan Hirst	Yes	5	5	7	7
Alasdair Breach	Yes	5	5	7	7
Kaha Kiknavelidze	Yes	5	5	7	7
Ian Hague	No	5	5	7	6
Hanna Loikkanen	No	5	5	7	7
Company Secretary					
Kate Bennett Rea, on behalf of KB Rea Ltd					

Note that the members of the Board of BGH are identical to the members of the Supervisory Board of the Bank. Over the course of 2013, seven meetings of the Supervisory Board were held in person or via teleconference.

To assist us in carrying out our functions and to ensure there is independent oversight of financial, audit and internal control issues, review of remuneration, share plans and other incentives as well as oversight and review of Board and executive succession planning, the Board has delegated certain responsibilities to Board Committees. Each Board Committee has agreed Terms of Reference, which are approved by the Board. Copies of each Committee's Terms of Reference can be found on our website, at http://www.bogh.co.uk/en/corporate-governance. The Chairman of each Board Committee reports to the Board on the matters discussed at Board Committee meetings. You will find later in this section reports from the Chairman of each Board Committee on the Committee's activities in 2013 and priorities for 2014.

In 2013, the Board made all decisions regarding risk and risk management at the Board level. The Board confirms that there is an ongoing process in place for identifying, evaluating and managing significant risks, including those risks relating to social, environmental and ethical matters. The Board develops policies and procedures and the role of management is to implement the Board's policies on risk and control and provide assurance on compliance with these policies. For a detailed discussion of the Group's risk management procedures, see pages 48 to 57 of this Annual Report. Effective from 1 January 2014, the Board has delegated certain risk management responsibility to the newly formed Risk Committee, which comprises four Independent Non-Executive Directors. This Risk Committee will regularly report to the Board.

The overall responsibility for the systems of internal control and review of their effectiveness also rests with the Board. The Board has undertaken a full review of systems of internal control with the assistance of the Audit Committee. In order to assist the Board in discharging its overall responsibility, the Audit Committee keeps under review the effectiveness of the system of internal control and reports regularly to the Board. See page 78 of this Annual Report for a detailed description of the procedures implemented by the Audit Committee with respect to internal control.

How does the Board operate?

We normally meet five times a year, for a period of two to three days. We meet more frequently when the need arises and, in 2013, we arranged and held seven additional meetings at short notice to discuss other matters relevant to the Board. In total, we met as a Board 12 times during the year. All Directors make every effort to attend each meeting, whether in person or by telephone, unless circumstances, such as illness or prior commitments, prevent them from doing so. In such instances, they are able to provide the Chairman ahead of the meeting with any views or comments they may have on the matters to be discussed.

The Chairman also seeks input from the Non-Executive Directors ahead of each Board meeting in order to ensure that any particular matters raised by Non-Executive Directors are on the agenda to be discussed at the meeting. In addition, the Chairman meets with the CEO after each meeting to agree the actions to be followed up and to discuss how effective the meeting was.

Each Director committed an appropriate amount of time to their duties in 2013 and the Non-Executive Directors met the time commitment specified in their letters of appointment.

What makes our Board effective?

Our Board has primary responsibility for ensuring that, as a collective body, it has the appropriate skills, knowledge and experience to perform its role effectively. We take an integrated approach to effective corporate governance, which is underpinned by openness, transparency and accountability, as well as constructive challenge and collaboration.

Key to ensuring the Board's effectiveness is enabling Directors' full access to information and management across the Group. The Chairman and Non-Executive Directors frequently conduct site visits and interact with staff at all levels. This gives them opportunities to see the culture and values of the organisation in action, and also provides context to the formal information that they receive for Board meetings.

The Board consistently probes, questions and explores the logic behind management actions, both in formal Board meetings and other informal interactions. The Chairman plays a particularly important role by ensuring that all Board members have the opportunity to contribute fully in all Board discussions. Given the collaborative nature of the Board, Board members feel that they can speak their minds freely and constructively challenge management as well as other members of the Board. This atmosphere enhances the Board's overall effectiveness.

Board size, composition and qualification

We have determined that the optimum Board size for BGH is seven to 10 members. In 2013 and as of the date of this Annual Report, we had eight Board members: the Chairman, the Chief Executive Officer and six Non-Executive Directors. A list of individual Directors and their biographies and qualifications are set out on pages 72 and 73. Details of Board Committee membership are set out on page 71 of this Annual Report.

The size and composition of a board, the qualifications of its members and the balance of their skills have a significant impact on how effective that board is. We regularly review these matters, both in terms of what we need now and what we might need to be successful in the future. Our aim is to ensure that we have the right mix for constructive group discussion and, ultimately, effective Board decisions.

We recognise the benefits of diversity in the Board, and the current members of the Board have the wide range of skills and experience required to govern the Group. In 2013, our Board included one woman, and its members collectively represent five different nationalities. Geographic and gender diversity together with key technical expertise in banking, risk, accountancy, finance, technology and international business will form core components of our Board succession planning as we look forward. Balancing all of these factors to maintain an effective Board is a delicate matter and we do not believe that imposing quotas is appropriate in this context.

Director independence

We consider Non-Executive Director independence on a bi-annual basis as well as part of each Director's performance evaluation. In 2013, the Board was satisfied that the majority of its Non-Executive Directors were independent. As a result of the resignations and appointments in December 2013, with the exception of our Chairman, who met the independence criteria of the Code on appointment, all of our Non-Executive Directors are independent under the Code.

Evaluation of Board performance

The performance of the Board and its Committees is a fundamental component of the Company's success. The Board regularly reviews its own performance and carried out a formal evaluation in December 2013. The evaluation was conducted internally, coordinated and directed by the Chairman. A questionnaire was prepared by the Chairman and the Company Secretary, and formed the basis of in-depth interviews with each Director. The main areas considered by the evaluation were performance, composition, expertise and strategy.

The results of the assessment were considered by the Board, and confirmed the strength of the management of the Company, a sound governance framework and practices compliant with the Code. The Board is satisfied that each of the Non-Executive Directors contributes to its governance and operations. Annual reviews of the performance of the Audit, Nomination and Remuneration Committees have also been carried out as part of the Board evaluation. These reviews have confirmed that each Committee continues to operate effectively. As a result of the reviews, the Board and each of the Committees agreed action plans, which included a number of steps to build relationships and improve its procedures and effectiveness, given the recent Board changes.

The Board will conduct an externally facilitated effectiveness evaluation in 2014.

Succession planning and Board appointments

We believe that effective succession planning mitigates the risks associated with the departure or absence of well-qualified and experienced individuals. We recognise this, and our aim is to ensure that the Board and management are always well resourced with the right people in terms of skills and experience, in order to effectively and successfully deliver our strategy. We also recognise that, even though new faces bring fresh ideas and perspective to how things are done, continued tenure brings a depth of Group-specific knowledge that is important to retain.

The Board Nomination Committee is responsible for both Executive and Non-Executive Director succession planning, and recommends new appointments to the Board. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. More detail on the role of the Board Nomination Committee is on pages 96 and 97 of this Annual Report.

In December 2013, our longest-standing Director, Allan Hirst, as well as our Directors appointed by significant shareholders, Ian Hirst and Hanna Loikkanen, stepped down from the Board. Upon recommendation by the Nomination Committee, the Board appointed three new Independent Non-Executive Directors as discussed earlier in this section.

Non-Executive Directors' terms of appointment

On appointment, our Non-Executive Directors are given a letter of appointment that sets out the terms and conditions of their directorship, including the fees payable and the expected time commitment. Each Non-Executive Director is expected to commit approximately 25 to 35 days per year to the role. An additional time commitment is required to fulfil their roles as Board Committee members and/or Board Committee Chairmen, as applicable. We are confident that all Non-Executive Directors dedicate the amount of time necessary to contribute to the effectiveness of the Board. The Letters of Appointment for our Non-Executive Directors are available for inspection at our Company's registered office during normal business hours.

Directors' external activities and conflicts of interest

Our Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Group, unless that conflict is first authorised by the Directors. This includes potential conflicts that may arise when a Director takes up a position with another company. We recognise the importance of the experience, value and knowledge that can be brought to the Board by Directors undertaking other roles or activities. Our Directors are obliged to obtain authorisation prior to doing so, and it is their responsibility to ensure that they will be able to meet the time commitment we expect of them and that the additional role will not impact on their effectiveness as a Director.

Our Articles of Association allow the Board to authorise potential conflicts, and we have a comprehensive procedure in place to deal with any actual or potential conflict of interest. The Board takes into consideration all the circumstances and deals with each appointment on its individual merit.
All potential conflicts approved by the Board are recorded in an Interests Register, which is reviewed bi-annually by the Board. Following a review of the Interests Register in 2013, the Board concluded that all the potential conflicts as registered have been considered thoroughly and appropriately.

Board induction and professional development

We have a Director induction and ongoing development programme in place that is tailored to the needs of each Director. We are committed to the continuing development of Directors in order that they may build on their expertise and develop an ever-more-detailed understanding of the business and the markets in which Group companies operate.

Our newly appointed Directors undertook comprehensive induction training in February 2014 and all other Directors received ongoing training throughout 2013, including a full day of corporate governance training in December 2013. At each Director evaluation (in the case of continuing Directors) or induction (in the case of newly joined Directors), the Chairman and Director agree a tailored development programme and the Chairman reviews the performance of each Director annually as discussed in greater detail above. Delivery against the agreed development programme is a key component of this review. The Chairman and Non-Executive Directors are supported by the Company Secretary and through specialist advice on corporate governance matters.

Board Committees

In 2013, the Board had three Committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. The Audit Committee is responsible for the oversight and review of financial, audit and internal disclosure issues. The Remuneration Committee is tasked with the oversight and review of remuneration, share plans and other incentives. The Nomination Committee is responsible for the oversight and review of Board and executive succession planning.

Our Board has made a conscious decision to delegate a broader range of issues to the Board Committees in order for the Board to focus more heavily on strategy, but has ensured effective connections between the Committees and the Board so as to ensure openness and transparency.

2013 COMMITTEE MEMBERSHIP

	Audit Committee	Remuneration Committee	Nomination Committee
Neil Janin		Member	Chairman
David Morrison	Member*	Member	Member
Allan Hirst	Chairman		Member
Alasdair Breach		Chairman	Member
Kaha Kiknavelidze	Member		Member
Ian Hague			Member
Hanna Loikkanen			Member
Kim Bradley	Member		Member
Bozidar Djelic			Member
Tamaz Georgadze			Member

* Following the resignation of Mr Hirst on 19 December 2013, Mr Morrison was appointed Chairman of the Audit Committee.

FULLY INDEPENDENT NON-EXECUTIVE DIRECTORS

1. Neil Janin
Chairman

Neil Janin was appointed as Chairman of BGH on 24 October 2011 and was elected by shareholders on 1 June 2012 and re-elected at the AGM in 2013. He serves as Chairman of BGH's Board and Nomination Committee as well as a member of BGH's Remuneration Committee. Mr Janin also serves as Chairman of the Supervisory Board of the Bank and a member of its Remuneration Committee, positions he has held since 2010.

Mr Janin serves as counsel to CEOs of both for-profit and non-profit organisations and continues to provide consulting services to McKinsey & Company. Prior to joining the Bank in 2010, Mr Janin was a Director of McKinsey & Company, based in its Paris office, for over 27 years, from 1982 until his retirement. At McKinsey & Company, he conducted engagements in the retail, asset management and corporate banking sectors, and was actively involved in every aspect of organisational practice, including design, leadership, governance, performance enhancement and transformation. In 2009, while serving as member of the French Institute of Directors, Mr Janin authored a position paper on the responsibilities of the Board of Directors with regards to the design and implementation of a company's strategy. Before joining McKinsey & Company, Mr Janin worked for Chase Manhattan Bank (now JP Morgan Chase) in New York and Paris, and Procter & Gamble in Toronto. Mr Janin has practised in Europe, Asia and North America.

Mr Janin holds an MBA from York University, Toronto, and a joint honours degree in Economics and Accounting from McGill University, Montreal.

2. Irakli Gilauri
Chief Executive Officer

Irakli Gilauri was appointed as an Executive Director of BGH on 24 October 2011 and was elected by shareholders on 1 June 2012 and re-elected at the AGM in 2013. Mr Gilauri has served as CEO of BGH since his appointment in 2011, and also serves as CEO of the Bank, a position he has held since May 2006. Mr Gilauri is also Chairman of the Supervisory Board of Aldagi and a member of the Supervisory Board of the following subsidiaries of the Bank: BG Capital, BNB, Galt & Taggart Holdings and m2 Real Estate. Mr Gilauri also serves as the CEO of m2 Real Estate.

Before his employment with the Bank, Mr Gilauri was a banker at the EBRD's Tbilisi and London offices for five years, where he worked on transactions involving debt and private equity investments in Georgian companies.

Mr Gilauri received his undergraduate degree in Business Studies, Economics and Finance from the University of Limerick, Ireland, in 1998. He was later awarded the Chevening Scholarship, granted by the British Council, to study at the Cass Business School of City University, London, where he obtained his MSc in Banking and International Finance.

3. David Morrison
Senior Independent Non-Executive Director

David Morrison was appointed as the Senior Independent Non-Executive Director of BGH on 24 October 2011 and was elected by shareholders on 1 June 2012 and re-elected at the AGM in 2013. Mr Morrison replaced Allan Hirst as Chairman of the Audit Committee as of 19 December 2013, prior to which he served as a member of the Committee. Mr Morrison is also a member of BGH's Remuneration and Nomination Committees, and serves as Vice-Chairman of the Bank's Supervisory Board and as a member of the Bank's Audit and Remuneration Committees, positions he has held since 2010.

Prior to joining the Bank Supervisory Board, he founded the Caucasus Nature Fund (CNF), a charitable trust fund dedicated to nature conservation in Georgia, Armenia and Azerbaijan, and continues to serves as its Executive Director. Prior to founding the CNF, Mr Morrison worked for 28 years at Sullivan & Cromwell LLP, where he served as Managing Partner of the firm's Continental European offices. His practice focused on advising public companies in a transactional context, from mergers and acquisitions to capital raisings. Key banking clients he advised include Banco Espirito Santo in Portugal and Germany's development bank, Kreditanstalt für Wiederaufbau (KfW). He also served on the Board of Directors of KfW's finance subsidiary for 20 years. Mr Morrison is the author of several publications on securities law-related topics, and has been recognised as a leading lawyer in Germany and France.

Mr Morrison received his undergraduate degree from Yale College and received his law degree from the University of California at Los Angeles, and was a Fulbright scholar at the University of Frankfurt.

4. Alasdair (Al) Breach
Independent Non-Executive Director

Al Breach was appointed as an Independent Non-Executive Director of BGH on 24 October 2011 and was elected by shareholders on 1 June 2012 and re-elected at the AGM in 2013. Mr Breach serves as Chairman of BGH's Remuneration Committee and serves as a member of BGH's Nomination Committee and recently established Risk Committee. Mr Breach also served as a member of the Bank's Supervisory Board and Chairman of the Bank's Remuneration Committee, positions he has held since 2010, and has also been appointed to the Bank's recently established Risk Committee.

Mr Breach runs Furka Advisers, a Swiss-based asset management firm, is a significant shareholder in Gemmstock Growth Fund and is the co-founder of The Browser.com, a web-based curator of current affairs writing, established in 2008. He has also served on the Board of Directors of Vostok Nafta Investments plc, a Russia-focused Stockholm-based investment company since 2007. In January 2003, Mr Breach joined Brunswick UBS (later UBS Russia) as Chief Economist, and later was appointed Head of Research and Managing Director until October 2007. From 1998 to 2002, Mr Breach was a Russia and FSU (Former Soviet Union) economist at Goldman Sachs, based in Moscow.

Mr Breach obtained an MSc in Economics from the London School of Economics and an undergraduate degree in Mathematics and Philosophy from Edinburgh University.

5. Kakhaber (Kaha)-Kiknavelidze

Independent Non-Executive Director

Kaha Kiknavelidze was appointed as an Independent Non-Executive Director of BGH on 24 October 2011 and was elected by shareholders on 1 June 2012 and re-elected at the AGM in 2013. Mr Kiknavelidze also serves as a member of BGH's Audit and Nomination Committee and newly established Risk Committee. Mr Kiknavelidze also serves as a member of the Bank's Supervisory Board and Audit Committee, positions he has held since 2008, and has also been appointed to the Bank's recently established Risk Committee.

Mr Kiknavelidze is the founder and Managing Partner of Rioni Capital Partners LLP, an investment management company he continues to operate from London. Mr Kiknavelidze has over 15 years' experience in the equity markets, including serving as Executive Director of UBS, where he supervised the Russian oil and gas research team. Prior to joining UBS, he spent eight years at Troika Dialog, initially covering metals and mining and the utilities sectors and later, as Deputy Head of Research and Associate Partner, leading the oil and gas team. Mr Kiknavelidze began his career at the Bank as a Financial Manager in 1994.

Mr Kiknavelidze received his undergraduate degree in Economics with honours from the Georgian Agrarian University in Tbilisi, Georgia, and received his MBA from Emory University in the United States.

6. Kim Bradley

Independent Non-Executive Director

Kim Bradley was appointed as an Independent Non-Executive Director of BGH on 19 December 2013 and will be offered for election by shareholders at the 2014 AGM. Mr Bradley serves as a member of BGH's Nomination and Audit Committees and is Chairman of the recently established Risk Committee.

Mr Bradley retired from Goldman Sachs in early 2013, following 15 years as a Managing Director in the Real Estate Principal Investments and Realty Management divisions, where he focused on investment in both European real estate and distressed debt. In addition to his investment activities, Mr Bradley led Goldman's asset management affiliates in France, Italy and Germany. He has also served as President of Societa Gestione Crediti, a member of the Board of Directors of Capitalia Service Joint Venture in Italy and Chairman of the Shareholders' Board at Archon Capital Bank Deutschland in Germany. Prior to Goldman Sachs, he served as a Senior Executive at GE Capital for seven years in both the United States and Europe, where his activities included real estate workouts and restructuring, as well as acquisitions. Prior to GE Capital, Mr Bradley held senior executive positions at Manufacturers Hanover Trust (now part of JP Morgan) and Dollar Dry Dock Bank. He has also served as a Peace Corps volunteer and as a consultant with the US Agency for International Development in Cameroon.

Kim holds an MA in International Affairs from the Columbia University School of International Affairs and an undergraduate degree in English Literature from the University of Arizona.

7. Bozidar Djelic

Independent Non-Executive Director

Bozidar Djelic was appointed as an Independent Non-Executive Director of BGH on 19 December 2013 and will be offered for election by shareholders at the AGM in 2014. Mr. Djelic serves as a member of BGH's Nomination Committee.

Since January 2014, Mr Djelic has served as Managing Director in the Sovereign Advisory Department of Lazard, based in Paris. Bozidar Djelic also currently serves as a member of EBRD's "Transition to Transition" Senior Advisory Group. Prior to this, he served as Deputy Prime Minister for European Integration and Minister of Science and Technological Development of Serbia from 2008 to 2011. From 2007 to 2008, Bozidar served as sole Deputy Prime Minister of Serbia, and as Governor of the World Bank Group and Deputy Governor of the EBRD. From 2005 to 2007, he was Crédit Agricole Group's Director for Eastern Europe and the FSU, leading the acquisition and management of several banks in the region. From 2001 to 2004, Mr Djelic served as Minister of Finance and Economy of Serbia, leading the country's macro and banking reform. From 1993 to 2000, he worked at McKinsey & Company in Paris and Silicon Valley, specialising in financial institutions, asset management and media. He has also held various advisory positions, including adviser to the Polish and Romanian Governments.

He holds an MBA from the Harvard Business School, an MPA from Harvard's J.F. Kennedy School of Government and an MA in Economics from the École de Hautes Études in Social Sciences.

8. Tamaz Georgadze

Independent Non-Executive Director

Tamaz Georgadze was appointed as an Independent Non-Executive Director of BGH on 19 December 2013 and will be offered for election by shareholders at the AGM in 2014. Mr Georgadze serves as a member of BGH's Nomination Committee and recently established Risk Committee.

In 2013, Mr Georgadze founded SavingGlobal GmbH, a company focused on launching the first global deposit intermediation. Prior to founding this company, Mr Georgadze had a 10-year career at McKinsey & Company in Berlin, where he served as a Partner from 2009 to 2013 and provided consultation services for retail banks in Germany, Switzerland, Russia, Georgia and Vietnam. Prior to joining McKinsey & Company, Tamaz worked as an aide to the President of Georgia in the Foreign Relations Department from 1994 to 1995.

Mr Georgadze holds two PhDs, one in Economics from Tbilisi State University and the other in Agricultural Economics from Justus-Liebig University Gießen, Germany. Mr Georgadze also studied Law at Justus-Liebig Universität Gießen and graduated with honours.

Recently Retired Directors

On 19 December 2013, three members stepped down from the Board.

9. Allan Hirst
10. Ian Hague
11. Hanna-Leena (Hanna) Loikkanen

1. Irakli Gilauri
Chief Executive Officer

3. Mikheil Gomarteli
Deputy CEO, Retail Banking

2. Nikoloz Gamkrelidze
Deputy CEO, Finance

4. Sulkhan Gvalia
Deputy CEO, Corporate Banking

STRENGTH OF MANAGEMENT

1. Irakli Gilauri
Chief Executive Officer
See details on page 72.

2. Nikoloz Gamkrelidze
Deputy CEO, Finance
Mr Gamkrelidze was appointed as Deputy CEO (Finance) in October 2012, having previously served as CEO of Aldagi. Prior to joining Aldagi, Mr Gamkreldize served as CEO of joint stock company My Family Clinic from October 2005 to October 2007. Prior to joining My Family Clinic, Mr Gamkrelidze served as a consultant at Primary Healthcare Development Project (The World Bank Project) and worked on the development of pharmaceutical policy and regulation in Georgia. Prior to joining Primary Healthcare Development Project, he served at BCI Insurance Company as Head of the Personal Risks Insurance Department from 2002 to 2003. Mr Gamkrelidze started his career at the State Medical Insurance Company in 1998, where he worked for two years. He graduated from the Faculty of General Medicine of Tbilisi with distinctions, and holds an MA in International Healthcare Management from the Tanaka Business School of Imperial College London.

3. Mikheil Gomarteli
Deputy CEO, Retail Banking
Mr Gomarteli was appointed as Deputy CEO (Retail Banking) in February 2009. Mr Gomarteli has been with the Bank since December 1997. During his 16 years' service with the Bank, Mr Gomarteli has held various senior positions, including Co-Head of Retail Banking (from March 2007 to February 2009), Head of Business Development (from March 2005 to July 2005), Head of Strategy and Planning (from 2004 to 2005), Head of Branch Management and Sales Coordination (from 2003 to 2004), Head of Branch Management and Marketing (from 2002 to 2003) and Head of Banking Products and Marketing (from 2000 to 2002). Mr Gomarteli received an undergraduate degree in Economics from Tbilisi State University.

4. Sulkhan Gvalia
Deputy CEO, Corporate Banking
Mr Gvalia assumed Deputy CEO, Corporate Banking responsibilities in May 2013, prior to which he served as Deputy CEO/Chief Risk Officer since January 2005, following the Bank's acquisition of TUB, a mid-sized bank in Georgia co-founded by him in 1995. Mr Gvalia has 21 years of banking experience, holding management positions in risk, credit finance, strategy and treasury. Sulkhan received his undergraduate law degree from Tbilisi State University.

5. Archil Gachechiladze
Deputy CEO, Investment Management*
Mr Gachechiladze assumed the role of Deputy CEO (Investment Management) responsibilities in May 2013, prior to which he served as Deputy CEO in charge of Corporate Banking. Prior to joining Bank of Georgia, Mr Gachechiladze served as deputy director in

5. Archil Gachechiladze
Deputy CEO, Investment Management*

7. Irakli Burdiladze
Deputy CEO, Affordable Housing

9. Avto Namicheishvili
Deputy CEO, Legal

6. Murtaz Kikoria
CEO, Aldagi

8. Giorgi Chiladze
Deputy CEO, Chief Risk Officer

charge of Corporate Recovery at TBC Bank, Georgia, a position he held since August 2008. From 2006 to 2008, Mr Gachechiladze was an Associate at Lehman Brothers Private Equity (currently Trilantic Capital Partners) in London. From 1998 to 2004, Mr Gachechiladze served as a Senior Associate at Salford Equity Partners a Senior Analyst at EBRD in Tbilisi and London, a Senior Financial Analyst at KPMG Barents in Tbilisi and as a Team Leader for the World Bank's CERMA Project in Tbilisi. Mr Gachechiladze received his undergraduate degree in economics and law from Tbilisi State University and his MBA with distinction from Cornell University. He is also CFA Charterholder and a member of the CFA Society in the United Kingdom.

* Vasil Revishvili served as Deputy CEO in charge of Investment Management up until May 2013.

6. Murtaz Kikoria
CEO, Aldagi

Mr Kikoria was appointed as CEO of Aldagi in October 2012, having served as Deputy CEO (Finance) of the Bank since June 2011. Prior to his appointment, Mr Kikoria served as Acting CEO of BG Bank (currently Bank Pershyi) since June 2009. Mr Kikoria also serves as a member of the Supervisory Board of the Bank Pershyi. Mr Kikoria joined the Bank as Deputy CEO (Compliance) in August 2008. From 2005 to 2007, Mr Kikoria served as a Senior Banker at EBRD. Prior to joining EBRD, Mr Kikoria served as Head of Banking Supervision and Regulation at the NBG from 2001 to 2005, having previously held various senior positions at United Georgian Bank and SilkRoad Bank. Mr Kikoria received an undergraduate degree from Tbilisi State University in Economics, specialising in Finance and Credit.

7. Irakli Burdiladze
Deputy CEO, Affordable Housing

Mr Burdiladze was appointed as Deputy CEO (Affordable Housing) in 2010. He previously served as Chief Operating Officer of the Bank from March 2007 to June 2010, after spending a year as CFO. Prior to joining the Bank, Mr Burdiladze served as CFO of the GMT Group, a leading real estate developer and operator in Georgia. As CFO, Mr Burdiladze was responsible for the Group's capital-raising efforts and transaction structuring. Mr Burdiladze received a graduate degree in International Economics and International Relations from the Johns Hopkins University School of Advanced International Studies and an undergraduate degree in International Relations from the Tbilisi State University.

8. Giorgi Chiladze
Deputy CEO, Chief Risk Officer

Mr Chiladze was appointed as Deputy CEO, (Chief Risk Officer) in September 2013. He rejoined the Bank having already served as Deputy CEO (Finance) from 2008 to 2011. From 2011 to 2013, Mr Chiladze worked at the Partnership Fund in the capacity of Deputy CEO. Mr Chiladze served as General Director of BTA Bank (Georgia) from 2005 to 2011. Prior to joining BTA Bank, he was an executive member of the Supervisory Board of JSC Europace Insurance Company and a founding partner of the management consulting firm, Altergroup Ltd. Mr Chiladze had previously worked in the US at the Program Trading Desk at Bear Stearns in New York City, prior to returning to Georgia in 2003, Mr. Chiladze received a PhD in physics from Johns Hopkins University in Baltimore, Maryland and an undergraduate degree in physics from Tbilisi State University.

9. Avto Namicheishvili
Deputy CEO, Legal

Mr Namicheishvili has served as Deputy CEO (Legal) since July 2008, having previously been the Bank's General Counsel since March 2007. Before joining the Bank, Mr Namicheishvili was a Partner at Begiashvili & Co. Limited, a leading Georgian law firm, where he acted as the Bank's external legal adviser from 2004. Mr Namicheishvili received undergraduate degrees in law and international economic relations from Tbilisi State University and received a graduate degree (LLM) in International Business Law from Central European University, Hungary.

AUDIT COMMITTEE REPORT

David Morrison
Chairman of Audit Committee

DAVID MORRISON, CHAIRMAN OF THE AUDIT COMMITTEE, OUTLINES THE BOARD AUDIT COMMITTEE'S ACTIVITIES DURING 2013

Chairman's Overview

I am pleased to have assumed the role of Chairman of the Audit Committee following the retirement of Allan Hirst from the Board of BGH in December 2013. Allan was a wonderful asset to the Audit Committee and his contribution is greatly appreciated. In 2013, we also saw the addition of Kim Bradley to the Audit Committee. Kim adds a wealth of financial experience that will enhance the effectiveness of the Audit Committee.

The role of the Audit Committee is to monitor the integrity of financial information and to provide assurance to the Board that the Group's internal controls and risk management systems are appropriate and regularly reviewed. We also oversee the work of the external auditors, approve their remuneration and recommend their appointment.

Our Audit Committee is solely comprised of Independent Non-Executive Directors.

Both the Group and the environment in which it operates are evolving rapidly. The Audit Committee seeks to ensure that the Group's systems and controls are operating effectively not only for its current business, but also that they are adapting to keep pace. Among our priorities for 2014 will be continued focus on loan loss allowances, ensuring implementation of FATCA compliance and looking closely at risks arising from our IT systems and controls.

The Audit Committee has delegated authority from the Board set out in its written terms of reference, available on the Company's website at http://www.bogh.co.uk/en/corporate-governance. These terms of reference were last reviewed by the Audit Committee in December 2013. Further details on how the Audit Committee discharged its responsibilities and concluded that it is effective are provided below.

David Morrison
Chairman of the Audit Committee
10 April 2014

Key matters considered by the Audit Committee in 2013

The following table provides an overview of the Audit Committee' meetings and the key matters considered in 2013.

February

- Review draft financial statements for the year ended 31 December 2012. Discuss internal financial controls, changes in accounting policies, the quality and consistency of the application of the Group's accounting policies and key financial judgements made during 2012, principally provisioning for loan loss reserves and valuation of real estate.
- Meet separately with the external auditor to discuss the status of the external audit.
- Review preliminary results announcement and proposed dividend and make recommendation to the Board regarding publication of the preliminary results announcement.
- Assess external auditor's effectiveness.
- Consider the performance of the external auditor and prepare to recommend reappointment at the next AGM.
- Receive reports from internal audit and corporate and information security, compliance and physical security departments. Discuss annual internal audit planning report, and internal control environment.
- Approve internal audit plan and assess staffing and training needs of internal audit and corporate and information security, compliance and physical security departments.
- Assess effectiveness of internal audit, compliance and corporate control departments.
- Assess effectiveness of Audit Committee and confirm Committee members' independence and recent and relevant financial experience.

April

- Meet separately with external auditor to discuss audit findings in respect of annual financial results.
- Approve the Audit Committee Report for Annual Report and recommend that Board approve and publish Annual Report and Accounts.

Who is on the Audit Committee?

Membership of the Audit Committee, which is comprised of three independent Non-Executive Directors, and attendance at meetings held in 2013 is shown in the table below.

As mentioned above, in late 2013, Allan Hirst, the Chairman of our Audit Committee since our listing on the premium segment of the London Stock Exchange, retired from the Board and Audit Committee of the Company. Having served as a member of the Committee since listing, David Morrison assumed the position of Chairman and Kim Bradley was appointed to the Audit Committee in December 2013.

With respect to the Committee's qualifications and background, Mr Morrison is a trained securities lawyer who specialised in financial disclosure for over 25 years; Kaha Kiknavelidze is a trained financial analyst skilled in financial statement analysis and continues to manage his own investment fund; Mr Bradley served as a managing director at Goldman Sachs, where, immediately prior to joining the Company's Board and Audit Committee, he sat on various audit committees within the organisation and assessed internal audit functions and internal controls. Our Committee believes that each member has recent and relevant financial experience in satisfaction of the requirements of the Corporate Governance Code.

The biographies of the members of the Audit Committee are set out on pages 72 and 73 of this Annual Report.

The Audit Committee meetings are regularly attended by the Group CFO, Bank Chief Financial Officer and heads of the Bank internal audit and Corporate and Information Security, Compliance and Physical Security departments, and occasionally by the CEO. The external auditor is also invited to attend the Audit Committee meetings. The Audit Committee holds regular separate private sessions with the heads of the Bank internal audit and Corporate and Information Security, Compliance and Physical Security departments and the external auditor. These sessions, which are not attended by management, allow the Audit Committee to discuss any issues of concern in more detail and directly with the audit teams. From time to time, other members of management are invited to attend meetings in order to provide a deeper level of insight into key issues and developments.

Meetings of the Audit Committee take place prior to the Board meeting in order for the Audit Committee to report the activity of the Audit Committee and matters of particular relevance to the Board as a separate agenda item.

How did the Audit Committee Discharge its Responsibilities in 2013?

Financial reporting and auditing issues

The primary role of the Audit Committee in relation to financial reporting is to monitor the integrity of the Group's financial reporting, including all financial results announcements and financial statements, to satisfy itself that any significant financial judgements made by management are sound, to assess and report to the Board on the appropriateness of the Group's accounting policies and practices, and to address issues raised by EY in connection with the external audit.

With support and input from the external auditor, the Audit Committee considered the following primary areas of judgement:

Appropriateness of allowance for loan losses

The Audit Committee scrutinised the appropriateness of the allowance for loan losses. The main judgements arose around the timing of the recognition of any given impairment and the size of the loan loss. Management reported to the Audit Committee on the methodologies for identifying assets

Member	Independent	Meetings eligible to attend	Meetings attended
Allan Hirst (Former Chairman)	Yes	7	7
David Morrison (Current Chairman)	Yes	7	6
Kaha Kiknavelidze	Yes	7	7
Kim Bradley	Yes	1	1
Secretary			
Kate Bennett Rea, on behalf of KB Rea Ltd.			

May

- Review the first quarter results of the Group and recommend that Board approve and publish announcement regarding same.
- Receive reports from the internal audit and corporate and information security, compliance and physical security departments. Discuss status of internal audit, risk profile and internal control environment.
- Attend the Annual General Meeting, including addressing any relevant questions from shareholders.

August

- Review draft financial statements for the six months ended 30 June 2013. Review consistency of application of the Group's accounting policies and key financial judgements made during the period.
- Meet separately with the external auditor to discuss review report from external auditor in respect of the half-year financial results.
- Review the Half-Year Report and recommend to Board to approve and publish the Half-Year Report.
- Review the external auditor's independence including level of non-audit services during the first six months of the year.
- Receive an update from the Company Secretary regarding upcoming changes to Corporate Governance Code, including the Audit Committee and sustainability reporting requirements.

September

- Meet separately with the external auditor to discuss the Audit Planning Report and discuss assessment of key risks identified by the external auditor.
- Receive reports from the internal audit and corporate and information security, compliance and physical security departments. Discuss status of internal audit, risk profile and internal control environment.

November

- Review third-quarter results and recommend to Board to approve and publish the announcement regarding the same.

December

- Meet separately with the external auditor to receive an update on the external Audit Plan.
- Review and approve draft budget for upcoming year and review report on working capital sensitivity analysis.
- Review the external auditor's independence, including level of non-audit services.
- Receive reports from internal audit and corporate and information security, compliance and physical security departments. Discuss status of internal audit, risk profile and internal control environment. Focus on IT Security (including cyber-crime) and FATCA compliance.
- Review with a view to modification as appropriate the Audit Committee's Terms of Reference, Policy on Non-Audit Services, Internal Audit Policy, Risk Management Policy, Anti-Corruption and Anti-Bribery Policy, Related Party Transaction and Whistleblowing Policy.
- Training from external lawyers regarding the new regulatory requirements affecting the Audit Committee.

In addition to the activities discussed above, the Audit Committee assessed potential conflicts of interest and related party transactions.

at risk, categorising the loan portfolio and determining provisioning rates, as well as the assumptions applied in calculating the provisions for loan losses. In connection with these reports, the Audit Committee challenged the underlying assumptions made by management with respect to individually and collectively impaired loans and the system of controls to prevent and detect errors in the estimation for loan losses.

Valuation of investment properties and premises

Management reported to the Audit Committee on the methodology used in measuring the fair value of investment properties and premises and challenged the underlying assumptions used by management. The Audit Committee also discussed with management and the independent auditors the reports of independent appraisers engaged to value the property based on the values of similar locations and property type and the market conditions at the time the investment properties and premises were valued.

In relation to the financial reports overall:

- The Audit Committee evaluated whether the going concern basis of accounting was appropriate by assessing the Working Capital Report prepared by management. This report covered the liquidity position and forecast capital ratios, balance sheet and leverage position. The report incorporated known or expected regulatory changes and the impact of possible stress scenarios. After examining this report, the Audit Committee concluded that the liquidity and capital position of the Group remained appropriate and that there were no material uncertainties.
- Having been tasked by the Board to advise it, the Audit Committee examined the 2013 Annual Report and Accounts to consider whether they are fair, balanced and understandable. The Audit Committee did this by satisfying itself that there was a robust process of review and challenge at different levels within the Group to ensure balance and consistency. In doing so, the Audit Committee directly reviewed with the CEO and Group CFO the overall messages and tone of the Annual Report. The Audit Committee also considered other information regarding the Group's performance presented to the Board during the period. After consideration of all of this information, the Audit Committee advised the Board that it considers the 2013 Annual Report and Financial Statements to be fair, balanced and understandable.

Internal control

In accordance with the recommendations of the FRC's guidance for Directors on Internal Control (formerly known as the Turnbull guidance), the Group's systems of internal control are designed and operated to support the identification, evaluation and management of risks affecting the Group. They facilitate the effective and efficient operation of our business, provide assurance regarding the integrity of our internal reporting and are designed to comply with relevant laws and regulations, across all areas of operations. These systems are subject to continuous review as circumstances change and new risks emerge. See pages 48 and 49 for a discussion of the Board's overall responsibility for internal control and page 48 for a discussion of the Risk Management Policy.

At each physical Audit Committee meeting (on four occasions during 2013), the heads of our Corporate and Information Security, Compliance and Physical Security and internal audit departments made presentations on compliance and control-related matters. The presentations discuss regulatory compliance, know your employee and customer programmes, information security, corporate security, physical security and operational risk management.

During 2013, key focus areas in relation to internal control were enhancing the technology used for fraud detection and monitoring and ensuring that the resource requirements of both the internal audit and compliance functions were met so as to enable each department to deliver on its objectives. An extensive staff development programme was also implemented, allowing employees to obtain specialised certification and enhanced training.

Oversight of Internal Audit and External Audit

Internal audit

In addition to receiving internal audit's input on the control environment, we monitor the scope, extent and effectiveness of the internal audit function and seek to ensure it is adequately resourced and focused on the correct issues. We also review and approve the annual internal audit plan which includes a discussion of risk assessment. We review the plan on a regular basis, including any changes proposed to the scope of work, as well as discuss and approve changes to internal audit methodology.

At each physical Audit Committee meeting in 2013, we received reports from internal audit on audit activities, progress of the internal audit plan, the results of any unsatisfactory audits and the action plans to address these issues and resource requirements of the internal audit department. We also reviewed and monitored management's responsiveness to internal audit's findings.

We also reviewed internal audit's self-assessment of its performance and concluded that the internal audit function is effective and respected by management and conforms to the standards set by the Institute of Internal Auditors.

External audit

The Audit Committee is responsible for monitoring the performance, objectivity and effectiveness of the external auditor.

At the start of the 2013 annual audit cycle, we received from EY a detailed Audit Plan, identifying their assessment of key risks and discussed with EY the judgements forming the basis of the Audit Plan. For the 2013 financial year, the primary risks identified were in relation to the appropriateness of allowance for loan losses and valuation of investment properties and premises. These risks were tracked during the year and the Audit Committee reviewed the information provided by management and challenged the work done by EY to test management's assumptions and estimates around these areas, in particular the findings focused on management judgements.

The Audit Committee assessed the effectiveness of the audit process in addressing these matters through the reporting we receive from management throughout the year and from EY at both the half-year and year-end. In addition, we sought feedback from management on the performance of EY throughout the audit process. For the 2013 financial year, management was satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and determined that the quality of the audit process was good. Management also reported that the coordination between the EY London and Tbilisi teams was effective. The Audit Committee also considered the Audit Quality Inspection Report and the FRC evaluation of EY for 2012/2013, issued in May 2013. Over the course of the year, the Audit Committee has also scrutinised the quality and experience of the audit partners and senior team members engaged in the audit. On the basis of the foregoing the Audit Committee formed its own judgement (which was consistent with management's view), that the general quality of the audit work conducted by EY is of a high standard.

The Audit Committee also held private meetings with EY in order to provide additional opportunity for dialogue and feedback from the auditor without management being present. Matters typically included the auditor's assessment of business and financial risk and the auditor's interaction with management, independence of the audit and the exercise of professional scepticism.

Appointment and independence

Each year, the Audit Committee considers the reappointment of the external auditor, including the rotation of the audit partner and assesses the external auditor's performance, objectivity and independence. The external auditor is required to rotate the audit partner responsible for the Group every five years. The current lead audit partner has been in place for two years. It is the Audit Committee's responsibility to recommend to the Board the appointment or reappointment or removal of the external auditor.

EY was appointed as our Group statutory auditor by shareholders at our 2012 AGM, following a tender process and subsequent Audit Committee and Board recommendation. Shareholders reapproved EY's appointment at the 2013 AGM. During the course of the year, we have discussed with EY the business and financial risks and have sought assurance that these risks have been properly addressed in the audit strategy and plan that has been reviewed by the Audit Committee. We have sought assurance and are comfortable that no undue pressure has been asserted on the level of audit fees so as to ensure that there is no risk to audit work being conducted effectively.

We conducted a review of the performance and effectiveness of EY, which included an assessment of its independence and objectivity.

In order to further ensure independence of the external auditor, the Group has in place a policy to govern the non-audit services that may be provided by the external auditor, which sets out the circumstances in which the external auditor may be permitted to undertake non-audit services. Allowable services are preapproved up to £100,000. Any permissible non-audit service that exceeds this threshold requires approval from the Audit Committee and must be robustly justified and, if appropriate, tendered, before it is approved.

The Audit Committee's policy on tax advisory services is to not use the external auditor unless there is a very strong case for not seeking an alternative supplier. If non-audit services are undertaken by the auditor, the Audit Committee receives a quarterly report on such non-audit services so that it can monitor the types of services being provided and the fees incurred. On an annual basis, the Audit Committee reviews the Group policy on the provision of non-audit services in order to ensure that the objectivity and the independence of the external auditor is safeguarded and the terms of the policy are complied with fully by EY.

A breakdown of the fees paid to the auditor for audit-related services and non-audit work may be found in Note 24 of the Consolidated Financial Statements.

Further details of the non-audit services that are prohibited or allowed under our policy can be found on our website, at http://www.bogh.co.uk/en/corporate-governance

Following such review of the external auditor, the Audit Committee found that EY was considered to be objective and independent in its role as Group statutory auditor. The Audit Committee will recommend to the Board and to shareholders that EY should be reappointed as the Group's auditor at the 2014 AGM.

Effectiveness

The performance of the Audit Committee is reviewed each year as part of the Board Effectiveness Review, both by the Audit Committee itself and by the Board as a whole. In carrying out this review, the Audit Committee considered best practice recommendations.

The 2013 review concluded that the Audit Committee continues to operate and perform effectively.

Ongoing training and development

Over the course of the year, the Audit Committee received ongoing training from EY, the Company Secretary and other professional firms, including BGH's external legal advisers. These sessions covered control effectiveness, financial reporting processes, corporate governance changes as well as best practice. The Audit Committee will continue its ongoing training to further enhance its effectiveness.

DIRECTORS' REMUNERATION REPORT

Al Breach
Chairman of Remuneration Committee

BANK OF GEORGIA HOLDINGS PLC – DIRECTORS' REMUNERATION REPORT

1. Chairman's Statement

In 2013, the Remuneration Committee devoted substantial effort to a review of the Group's remuneration policy for our Executive Management Team, which consists of our CEO Irakli Gilauri (who is our sole Executive Director) and senior officers of our key subsidiaries and divisions. In this report we refer to our Executive Management Team collectively as "executive management" and individually as an "executive".

Policy summary and background

Since we created our policy in 2010, it has been defined by two key principles:

- When, over a sustained period, our shareholders do well, so should our executives.
- Banking is a services business built on human capital. The business will only reach its potential if we attract and retain the best talent available.

With these as our guiding principles, the Group has implemented an innovative remuneration structure for its executive management that in turn is comprised of two key parts:

- Salary compensation based on the combination of a modest cash sum and deferred shares that vest over a five-year period. This latter feature, paying a majority of salary in deferred shares, is our main innovation.
- Discretionary compensation payable entirely in deferred shares that vest over a two-year period. Discretionary compensation is dependent on both Group performance and the executive achieving his key performance indicators (KPIs) in each financial year. The fact that we pay no cash bonuses is another distinguishing feature of our structure.

Executives are employed under three-year employment contracts which fix the annual cash salary and the number of shares to be issued annually as deferred share salary over the three-year term. With discretionary compensation also in the form of deferred shares, the result is that, for our executive management, deferred share compensation is the dominant component of overall remuneration. We believe that this policy achieves a direct and natural alignment of shareholder and executive management interests.

In addition, both deferred share salary and discretionary deferred share compensation may cease to vest in certain circumstances if the executive does not remain affiliated with the Group. That can happen, for example, if the executive is dismissed, resigns or does not accept a contract renewal. In these circumstances, however, the Board in its discretion may permit unvested discretionary deferred shares to vest when the executive departs on good terms with the Group. We believe that the effect of these contractual arrangements combined with our strong emphasis on deferred share compensation promotes loyalty and discourages executives from leaving in circumstances not blessed by us. As a result, the policy motivates our executives to perform to their best ability and to act in the long-term interest of – and remain with – the Group.

I note that in contrast to other UK companies, the Group does not operate a long-term incentive plan (LTIP). We believe that, having built deferred share compensation into salary and discretionary remuneration, we have better achieved a similar aim. By focusing the executive on the Group's sustainable, long-term performance, our policy guards against the executive taking risks that endanger our long-term stability. We believe that gearing executive remuneration to narrow three-year performance targets selected in advance would be less effective, especially in fast moving markets. Our structure instead naturally and directly aligns both salary and discretionary remuneration with long-term stability and share price growth.

As mentioned above, our Remuneration Policy is not standard in the United Kingdom. We created it in a Georgian context in 2010, the period immediately after the financial crisis when many of the compensation practices and traditions in banking in the West were being heavily criticised. Among these practices were significant cash bonuses for executives, which unfortunately too often rewarded short-term results and promoted excessive risk-taking at stakeholder – and ultimately taxpayer – expense. In setting our policy in 2010, we sought to address the weaknesses in the prevailing practices and, in a non-UK context, we were able to start from scratch. We believe our system has worked well and has helped us avoid pitfalls that may remain even today in more common remuneration practices.

Shareholder reaction and recent adjustments

Over 90% of our shareholders voted in favour of our Directors' Remuneration Report for 2012 at our AGM in 2013. While support was overwhelming, the few votes against gave us pause, and accordingly the Board immediately decided to review and evaluate our policy. Following recommendation by the Remuneration Committee, in June of 2013 the Board appointed H2Glenfern to review its remuneration structure for executive management and compare it to other FTSE 250 companies and the ABI Principles of Remuneration. After review of the H2Glenfern report, in the first quarter of 2014, we met with a number of the Group's significant shareholders to discuss our remuneration structure.

At these meetings, we explained the key components of our remuneration structure – deferred share compensation as part of salary and bonuses paid 100% in deferred shares. We also compared our policy to standard structures in the United Kingdom post-crisis, focusing on the key differences including the absence of cash bonuses and an LTIP in our structure. The consultations were positive and these shareholders were supportive of the manner in which we remunerate our executive management.

As a result of this process, the Remuneration Committee is reaffirming its commitment to the principal tenets of our policies, with the following three changes informed by best practices in the United Kingdom:

- The maximum amount of total remuneration that can be awarded through discretionary deferred share compensation has been increased. Previously, we had limited this amount to less than 100% of an executive's salary. With one important exception described below for our CEO, Irakli Gilauri, we have changed this limit. Our new policy is that excellent performance can be rewarded with incentive compensation of not more than 125% of total salary. This change means that, in conformity with best practices, an executive who receives the maximum discretionary award will receive the majority of total remuneration in discretionary compensation. Beyond the usual maximum, the Remuneration Committee has have further reserved the right to increase the maximum discretionary award to 150% of total salary for extraordinary performance that we believe has resulted in outstanding benefits for shareholders.
- A clawback mechanism will now apply to discretionary deferred share compensation in the event of a material misstatement in the financial results.
- A principle has been added that new shares issued in satisfaction of deferred share compensation will not exceed 10% of BGH's ordinary share capital over any 10-year period.

Mr Gilauri is currently beginning the second year of a three-year contract with the Bank that expires in 2016. Under that contract, it was agreed that Mr Gilauri would receive a number of deferred salary shares per year that is substantially higher than for the other executive management. Because of the higher number of salary deferred shares, the maximum amount of discretionary deferred share compensation in respect of Mr Gilauri is different from the maximum for other executive management. For the remainder of his service contract with the Bank, the value of discretionary share compensation that Mr Gilauri may be granted in a given year is capped at 50% of his total salary.

The Remuneration Committee will review both the number of salary shares Mr Gilauri receives and the maximum discretionary compensation in relation to those shares for Mr Gilauri in 2016, but in the meantime we are convinced that the combination of the substantial number of deferred salary shares and the potential to earn discretionary shares of a significant value keeps Mr Gilauri highly motivated and aligned with shareholders.

Rewarding achievement

We strongly believe that, while the Group's executive management remuneration structure is innovative, it is also sensible, simple and fundamentally fair to executive management and shareholders. We have found that this remuneration structure entrenches a culture of hard work and loyalty to the Group and feedback from executives confirms that they view themselves as long-term stakeholders of BGH. We also believe that the structure is well aligned with the core ABI Principles of Remuneration and other leading guidance.

The KPIs for the Group and its excellent performance against them are set forth on pages 18 and 19 of this Annual Report.

I would like to thank our Executive Management Team – and all of the Group's employees – for their hard work, dedication and success in 2013. I would also like to thank our shareholders for their support of our policy last year. We are gratified by the reaction of the shareholders we have been able to speak with directly so far, and look forward to continuing the discussion.

Al Breach
Chairman of the Remuneration Committee
10 April 2014

2. 2013 Annual Remuneration Report

2.1 Basis of preparation of this Directors' Remuneration Report

This Directors' Remuneration Report has been prepared in accordance with the Act, the Regulations and the relevant requirements of the Listing Rules. As required by the Act, a binding resolution to approve the Directors' Remuneration Policy set out in section 6 below and an advisory resolution to approve all other sections of this Directors' Remuneration Report (other than section 3 which describes senior officers' remuneration) will be proposed at the AGM, which is intended to be held on 28 May 2014 (the 2014 AGM).

2.2 Audit

The information provided in this section of the Directors' Remuneration Report has, where stated, been audited by Ernst & Young LLP in accordance with statutory and regulatory requirements.

2.3 Single total figure of remuneration for Executive Director (audited)

The table below sets out the remuneration received by BGH's sole Executive Director, Irakli Gilauri, for 2013 and 2012 in respect of his employment with BGH and the Bank.

Mr Gilauri's previous contract expired in early 2013 and in late 2012 the Remuneration Committee commenced discussions with him on its renewal. The background for these discussions was:

- Mr Gilauri's performance under the prior contract (judged as excellent by the Committee);
- share price growth over the prior period that reflected in part Mr Gilauri's performance;
- substantially increased responsibilities faced by Mr Gilauri as CEO of a premium listed FTSE 250 company; and
- the Committee's judgement that Mr Gilauri's overall compensation was out of line with his peers at other FTSE 250 companies.

Mr Gilauri's new contract was signed in February 2013. The contract provided for a substantial increase in total remuneration opportunity. While Mr Gilauri's cash compensation was held constant, the Remuneration Committee decided to maintain the number of deferred salary shares awarded at the 2010 contract level despite the increase in the market value of the shares between 2010 and 2013, see footnote 2 to the table. At the same time, the Committee also reduced Mr Gilauri's discretionary deferred share compensation maximum to 50% of total salary. Within this maximum, Mr Gilauri's actual discretionary award increased in 2013.

For an overall summary of our compensation philosophy as it relates to Mr Gilauri, see the Chairman's letter above. Over 85% of Mr Gilauri's compensation for 2013 as set forth in the table below is in the form of deferred shares for which the average vesting period exceeds three years.

Resolution	BGH and Bank cash salary (US$) (Note 1)	Bank deferred share salary (US$) (Note 2)	Total salary (US$)	Discretionary deferred share compensation (US$) (Note 3)	Taxable benefits (US$) (Note 4)	Pension benefits (US$) (Note 5)	Dividend equivalents (US$) (Note 6)	Total (US$)
2013	437,500	1,954,157	2,391,657	994,664	130	1,799	100,213	3,488,463
2012	437,500	918,000	1,355,500	644,598	102	2,186	–	2,002,386

Notes:

1) BGH and Bank cash salaries are expressed in US Dollar but paid in GBP and Lari, converted into the respective currency as described in Note 2 of the table in section 6.2 of the Directors' Remuneration Policy. Accordingly, there may be variations in the numbers above and those provided in the accounts.
2) Deferred share salary. The figures show the value of BGH shares underlying nil-cost options granted in respect of service in the relevant year. The value is calculated by reference to the share price as of the date of the service contract which determined the number of shares underlying the award for the respective year. For both 2012 and 2013, the award was 90,000 BGH shares. The value is calculated by reference to the share price of US$21.71 (based on the official share price of £14.06 per share converted into US Dollars using an exchange rate of 1.5443, being the official exchange rate published by the Bank of England on the same date) as at 19 February 2013 for the 2013 award and by reference to the global depositary receipt (GDR) price of US$10.20 per GDR as at 25 May 2010 for the 2012 award (the dates of the relevant service contracts). Under the deferred share programme, the option awards in respect of deferred share salary are formally granted in January of the year following the year to which the award relates (the "work year") even though the number of deferred salary shares is fixed in the contract. The terms and conditions applying to deferred share salary, and an explanation of why it is not subject to performance measures, are described in section 6.2(a) of the Directors' Remuneration Policy.
3) Discretionary deferred share compensation. The figures show the value of BGH shares underlying nil-cost options granted in respect of bonus awards in the relevant year. The value is calculated by reference to the share price as of the date of the award. For 2013, options were awarded on 25 February 2014 over 25,000 BGH shares. For 2012, options were awarded on 15 February 2013 over 30,000 BGH shares. The share price on 25 February 2014 was US$39.79 (based on the official share price of £23.85 per share converted into US Dollars using an exchange rate of 1.6682, being the official exchange rate published by the Bank of England on the same date) and the share price on 15 February 2013 was US$21.49 (based on the official share price of £13.84 per share converted into US Dollars using an exchange rate of 1.5525, being the official exchange rate published by the Bank of England on the same date). This discretionary compensation in respect of 2013 is deferred and vests as to 50% in January 2015 and 50% in January 2016, subject to the leaver provisions described in section 6.5(b) of the Directors' Remuneration Policy. The means of determining the number of shares underlying this compensation and the terms and conditions are described in sections 6.2(b) of the Directors' Remuneration Policy. The basis for determining Mr Gilauri's 2013 discretionary award is described in section 2.4 below.
4) Benefits. The figures show the gross taxable value of health and disability insurance and Directors' and Officers' liability insurance.
5) Pensions. The figures show the aggregate employer contributions for the relevant years into the Group's defined contribution pension scheme.
6) Dividend Equivalents. The figure shows the dividend value paid in respect of nil-cost options exercised in respect of 2013.
7) Mr Gilauri was reimbursed for reasonable business expenses, on provision of valid receipts.
8) No money or other assets are received or receivable by Mr Gilauri in respect of a period of more than one financial year, where final vesting is determined by reference to achievement of performance measures or targets relating to a period ending in 2013.

2.4 Basis for determining Mr Gilauri's discretionary deferred share compensation

The number of discretionary deferred shares granted to Mr Gilauri's in a given year is dependent on both Group performance and his achievement of the KPIs set for him by the Remuneration Committee. A description of the Group KPIs are set forth in the Strategic Review on pages 18 and 19 of this Annual Report.

The following table sets forth the KPIs set for Mr Gilauri in respect of 2013 as well as Mr Gilauri's performance against the KPIs set for 2013.

Key performance measure	2013 Target	2013 Performance
Return on Average Equity (ROAE)	c. 20.0%	18.6%
Net loan book growth	c. 20.0%*	13.9% loan book
Net deposit growth	c. 20.0%	18.5% deposits
Tier I Capital Adequacy ratio	c. 20.0%	23.0%
Operating leverage	Positive	+7.5%
Cost to Income ratio	Improvement from 44.4% in 2012	41.4%
Net Interest Margin	7.0%–7.5%	7.8%
Net loans to deposits	Less than 110.0%	96.2%
Cost of Risk	<1.5%	1.4%
Cost of Funding	Decrease	Decline from 7.3% in 2012 to 5.9% in 2013
Express Banking roll-out	Delivery on strategy	Increase in the number of retail customers, current accounts and Express Pay Terminals exceeded expectations
Revenue diversification and growth	Delivery on real estate, Aldagi Health and Investment Management strategy	IRR target in real estate and ROAE/net profit contributions in healthcare achieved; investment management strategy advanced
Dividend per share	Increase	Increase from GEL 1.5 per share in respect of 2012 to GEL 2.0 per share in respect of 2013

* In 2013, the target was reduced to 10% based on the weaker Georgian GDP.

Mr Gilauri's KPIs largely track the Group's KPIs as he is expected to deliver on the Group's strategy. In addition to the KPIs listed in the table above, the Remuneration Committee considers non-tangible factors such as leadership and forward-looking strategy development when determining Mr Gilauri's discretionary compensation.

In respect of 2013, the Remuneration Committee determined that Mr Gilauri met or exceeded many of the KPIs and came close on most others. In light of the challenging operating environment for the Group in 2013 due to the unexpectedly slow growth in the Georgian economy, the Remuneration Committee viewed Mr Gilauri's performance as excellent and instrumental in creating shareholder value. As a result, the Committee determined that Mr Gilauri should be awarded discretionary deferred share compensation valued at US$994,664, exceeding his target discretionary compensation of US$837,080, but less than his maximum discretionary compensation of 50% of total salary. Also see section 6.2(b) below which describes why the Remuneration Committee steers away from strict weighting of the performance measures and the discretion it retains in respect of determining the number of discretionary shares that may be granted.

2.5 Further details of fixed and discretionary contingent deferred share compensation granted during 2013 (audited)

The following table sets out details of the nil-cost options over BGH shares which have been granted to Mr Gilauri in 2013.

	Deferred share salary	Discretionary deferred share compensation
No. of underlying shares and basis on which award was made	90,000, granted on the basis described in the table in section 6.2 and section 6.2(a) of the Directors' Remuneration Policy	30,000, granted on the basis described in the table in section 6.2 and section 6.2(b) of the Directors' Remuneration Policy.
Type of interest	Nil-cost option	Nil-cost option
Cost to Group (as reflected in accounts)	US$918,000 (calculated as described in footnote 2 to the table in section 2.3 above).	US$644,598 (calculated as described in footnote 3 to the table in section 2.3 above).
Face value	US$918,000 (calculated as described in footnote 2 to the table in section 2.3 above). Cash payments equal to the dividends paid on the underlying shares will be made upon vesting.	US$644,598 (calculated as described in footnote 3 to the table in section 2.3 above). Cash payments equal to the dividends paid on the underlying shares will be made upon vesting.
% of award receivable if minimum performance achieved	100% of the award will be receivable, since the award is part of the executive's salary for 2012 and accordingly is not subject to performance measures or targets over the vesting period.	100% of the award will be receivable, since the award is based on 2012 performance (and is not a LTIP award) and accordingly is not subject to performance measures or targets over the vesting period.
Exercise price	Nil. The options form part of the Executive Director's salary under the policy and so no payment is required upon exercise.	Nil. The options make up the entirety of the Executive Director's performance-based compensation and so no payment is required upon exercise.
Vesting period	Five (5) years, with full vesting in January 2017.	Two (2) years, with full vesting in January 2015.
Performance measures	None. See section 6.2(a) of the Directors' Remuneration Policy.	See section 2.4 above and section 6.2(b) of the Directors' Remuneration Policy.

2.6 Percentage change in remuneration of CEO

The following table sets out details of the percentage change in the remuneration awarded to the CEO between 2012 and 2013, compared with the average percentage change in the per capita remuneration awarded to the Group's employees as a whole between 2012 and 2013. See section 2.3 for an explanation of the increases in the salary and discretionary deferred compensation of Mr Gilauri.

	Percentage change for CEO between 2012 and 2013	Average percentage change for Group's employees as a whole (excluding Mr Gilauri) between 2012 and 2013
Total cash salary (combined BGH and Bank) (see Note 1)	0.0%	1.2%
Taxable benefits	+27.2%	26.7%
Total bonus (discretionary deferred share compensation, in the case of Mr Gilauri, and deferred discretionary share compensation plus cash bonus, in case of other employees of the Group)	+54.3%	+3.8%

Note:
1) Figures calculated as described in Note 1 to the table in section 2.3. Deferred share salary has not been included as over 99% of the employees of the Group do not receive deferred share salary as part of their remuneration package.

2.7 Single total figure of remuneration for Non-Executive Directors (audited)

The table below sets out the remuneration received by each Non-Executive Director in 2013 and 2012.

	BGH fees (US$)		Bank fees (US$)		Total fees (US$)	
Non-Executive Director	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**
Neil Janin (Chairman)	107,500	107,500	107,500	107,500	215,000	215,000
David Morrison	79,500	79,500	68,500	72,500	148,000	152,000
Allan Hirst	63,500	63,500	52,500	52,500	116,000	116,000
Al Breach	59,500	59,500	48,500	56,000	108,000	115,500
Kaha Kiknavelidze	59,500	59,500	48,500	56,000	108,000	115,500
Ian Hague[1]	Waived	Waived	Waived	Waived	N/A	N/A
Hanna Loikkanen[1]	Waived	Waived	Waived	Waived	N/A	N/A
Kim Bradley[2]	N/A	Waived	N/A	Waived	N/A	Waived
Bozidar Djelic[3]	N/A	Waived	N/A	Waived	N/A	Waived
Tamaz Georgadze[4]	N/A	Waived	N/A	Waived	N/A	Waived
Total	**369,500**	**369,500**	**325,500**	**344,500**	**695,000**	**714,000**

1. Both Ian Hague and Hanna Loikkanen have waived their entitlement to fees (which would have been US$48,500 each for BGH fees and US$37,500 each for Bank fees) as both are representatives of significant shareholders of BGH.
2. Kim Bradley was appointed to the BGH Board and the Supervisory Board of the Bank on 19 December 2013. Mr Bradley agreed to waive his BGH and Bank remuneration until 1 January 2014. Mr Bradley's total annual remuneration from BGH and the Bank will be US$70,500 and US$59,500, respectively, in 2014.
3. Bozidar Djelic was appointed to the BGH Board and the Supervisory Board of the Bank on 19 December 2013. Mr Djelic agreed to waive his BGH and Bank remuneration until 1 January 2014. Mr Djelic's total remuneration from BGH and the Bank will be US$56,000 and US$45,000, respectively, in 2014.
4. Tamaz Georgadze was appointed to the BGH Board and the Supervisory Board of the Bank on 19 December 2013. Mr Georgadze agreed to waive his BGH and Bank remuneration until 1 January 2014. Mr Georgadze's total remuneration from BGH and the Bank will be US$56,000 and US$45,000, respectively, in 2014.

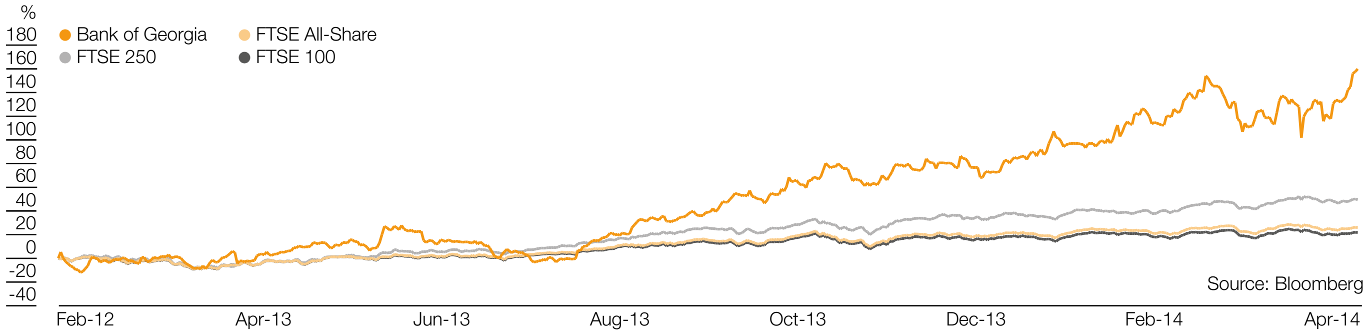
2.8 Payments to past Directors or for loss of office

In 2013 no payments were made to past Directors, nor were payments made for loss of office.

2.9 Total Shareholder Return

Bank of Georgia TSR vs. the FTSE indices TSR.

The following graph compares the Total Shareholder Return (TSR) of Bank of Georgia Holdings PLC with the companies comprising the FTSE All-Share Index, the FTSE 250 Index and FTSE 100 Index for the period since BGH's listing on the Premium Segment of the LSE on 28 February 2012 until 3 April 2014.



The following table sets out details of total remuneration for the CEO, Mr Gilauri, for the period from 1 January 2009 to 31 December 2013 and his discretionary compensation as a percentage of maximum opportunity. The CEO does not participate in any LTIP and therefore the table does not include long-term incentive vesting rates against maximum opportunity.

	2009	**2010**	**2011**	**2012**	**2013**
Single figure of total remuneration (US$)	1,982,622	1,707,425	1,827,674	2,002,386	3,488,463
Discretionary compensation as a percentage of maximum opportunity (%)	89.8%	31.7%	41.1%	94.9%	83.2%

Notes:
1) Single figure of total remuneration has been calculated in section 2.3 above. The maximum opportunity for Mr Gilauri was less than 50% of total remuneration in 2012 and 50% of salary in 2013.
2) For 2011, Mr Gilauri's cash salary was US$375,000 and the value of the salary deferred shares was calculated on the same basis as 2012. The award of discretionary deferred shares was 34,000 BGH shares in respect of 2011. The value is calculated by reference to the share price on 6 March 2012 which was US$15.61 per share (based on the official share price of £9.92 per share converted into US Dollars using an exchange rate of 1.5738, being the official exchange rate published by the Bank of England on the same date). The maximum opportunity in 2011 was 100% of Mr Gilauri's salary, being US$1,293,000.
3) For 2010, Mr Gilauri's cash salary was US$375,000 and the value of the salary deferred shares was calculated on the same basis as 2011 and 2012. The award of discretionary deferred shares was 20,000 GDRs in respect of 2010. The value is calculated by reference to the GDR price on 21 February 2011 which was US$20.50. The maximum opportunity in 2011 was 100% of Mr Gilauri's salary, being US$1,293,000.
4) For 2009, Mr Gilauri's salary of US$477,193 was paid solely in cash. The award of discretionary deferred shares was 150,000 GDRs in respect of 2009. The value is calculated by reference to the GDR price on 18 February 2010 which was US$10.00. The maximum opportunity in 2009 was 350% of Mr Gilauri's salary, being US$1,670,176.

2.10 Relative importance of spend on pay

The following table shows the difference in remuneration paid to all employees of the Group between 2012 and 2013 as well as the difference in value of distributions paid to shareholders by way of dividends between 2012 and 2013.

	Remuneration paid to all employees of the Group	Distributions to shareholders by way of dividends
Year ended 31 December 2012 (US$) (dividend for year 2011)	73,975,976	15,251,598
Year ended 31 December 2013 (US$) (dividend for year 2012)	77,788,977	31,156,294
Percentage change	+5.2%	+104.3%

2.11 Directors' interests in shares (audited)

The following table sets forth the respective holdings of BGH shares of each Director as at 31 December 2012 and 2013.

	As at 31 December 2012				As at 31 December 2013			
	Number of BGH shares held directly	Number of vested but unexercised BGH shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Number of unvested and unexercised BGH shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Total number of interests in BGH shares	Number of BGH shares held directly	Number of vested but unexercised BGH shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Number of unvested and unexercised BGH shares held under option through deferred share salary and discretionary deferred share compensation (all nil-cost options with no performance conditions)	Total number of interests in BGH shares
Irakli Gilauri[1]	206,431	–	296,000	502,431	60,831	–	323,000	383,831
Neil Janin[2]	25,729	N/A	N/A	25,729	25,729	N/A	N/A	25,729
David Morrison[2]	26,357	N/A	N/A	26,357	26,357	N/A	N/A	26,357
Al Breach[3]	10,279	N/A	N/A	10,279	14,279	N/A	N/A	14,279
Kaha Kiknavelidze[2]	26,337	N/A	N/A	26,337	26,377	N/A	N/A	26,377
Kim Bradley[2]	N/A	N/A	N/A	N/A	–	N/A	N/A	–
Tamaz Georgadze[2]	N/A	N/A	N/A	N/A	–	N/A	N/A	–
Bozidar Djelic[2]	N/A	N/A	N/A	N/A	–	N/A	N/A	–
Allan Hirst[2]	60,434	N/A	N/A	60,434	48,434	N/A	N/A	48,434
Ian Hague[4]	5,112	N/A	N/A	5,112	5,112	N/A	N/A	5,112
Hanna Loikannen[5]	2,616	N/A	N/A	2,616	2,616	N/A	N/A	2,616

1. In 2013, Mr. Gilauri exercised options in respect of 93,000 BGH shares and sold 220,000 BGH shares. As at the date of this Annual Report, Mr. Gilauri holds 153,631 BGH shares held directly, 0 vested but unexercised BGH shares held under option and 322,000 unvested and unexercised BGH shares held under option, resulting in a total number of interests in BGH shares of 475,631, representing 1.32% of the share capital of BGH.
2. There have been no changes in interests in BGH shares since 31 December 2013.
3. At year-end 2012 and 2013, Gemstock Growth Fund, which Mr Breach manages, held 20,000 BGH Shares.
4. At year-end 2012 and 2013, the Firebird Group, which Mr Hague manages, held 2,852,921 and 1,373,066 BGH Shares, respectively.
5. At year-end 2012 and 2013, the East Capital Group, Mr Loikannen's employer, held 6,328,417 and zero BGH Shares, respectively.

The nature of the deferred share compensation structure results in executive management having large holdings of unvested shares. Because of this, the Group does not require executive management to hold a specified number of shares in BGH. On the contrary, it encourages executive management to diversify their financial holdings by selling a portion of their shares as they vest given that the cash salary received by executive management is modest. Subject to restrictions imposed by the Model Code for Share Dealing, no shares acquired by Mr Gilauri upon vesting and exercise of his share compensation are required to be held for any specified period of time. None of Mr Gilauri's connected persons have interests in any BGH shares.

The Group does not require Non-Executive Directors to hold a specified number of shares in BGH. Notwithstanding this, some Non-Executive Directors have chosen to become shareholders.

2.12 Details of Non-Executive Directors' terms of appointment

Letters of appointment are entered into by BGH with each Non-Executive Director, generally for three-year terms. The letters of appointment require Non-Executive Directors to provide one-month notice prior to termination. New BGH letters of appointment for each Non-Executive Director were signed on 10 April 2014, with each Non-Executive Director subject to annual re-election at the AGM.

A succession plan adopted by the Board provides for a tenure of six years on the BGH and Bank Supervisory Boards. Upon the expiry of such six-year tenure, the appointment of the relevant Director will generally cease at the next upcoming AGM. Notwithstanding the foregoing, if the Board determines that, in order to maintain the balance of appropriate skills and experience required for the Board, it is important to retain a Director on the Board beyond the relevant six-year period, the Board may offer the Director a letter of appointment for an additional one-year term. Such a one-year "re-appointment" may be renewed no more than two times, with the effect that the usual six-year tenure may be extended to a maximum of nine years if circumstances were to warrant such extension.

The table below shows each Non-Executive Director's original date of appointment to the Board of BGH and the Supervisory Board of the Bank as well as the unexpired term pursuant to his current letter of appointment.

	Original date of appointment*	Unexpired term pursuant to current letters of appointment*	Six-year term end (for extended Directors, maximum 9-year term end)
Neil Janin	December 2011 (BGH) June 2010 (Bank)	2 years	AGM 2016
David Morrison	December 2011 (BGH) June 2009 (Bank)	1 year	AGM 2015
Al Breach	December 2011 (BGH) June 2010 (Bank)	2 years	AGM 2016
Kaha Kiknavelidze	December 2011 (BGH) February 2009 (Bank)	1 year	AGM 2015
Kim Bradley	December 2013 (BGH and Bank)	3 years	AGM 2020
Bozidar Djelic	December 2013 (BGH and Bank)	3 years	AGM 2020
Tamaz Georgadze	December 2013 (BGH and Bank)	3 years	AGM 2020

* Information is for both BGH and Bank unless otherwise noted.

3. Senior Officer Remuneration

In addition to the CEO of BGH and the Bank, in 2013, there were seven senior officers. These individuals include the Bank's "Deputy CEOs" responsible for the following directions: Finance, Retail Banking, Corporate Banking, Investment Management, Legal and Affordable Housing, as well as the CEO of Aldagi.

Key information regarding remuneration for senior officers is disclosed below in the interest of transparency, but the remuneration of senior officers is not subject to the Regulations or to the Directors' Remuneration Policy described in section 6 of this Directors' Remuneration Report, nor is it subject to shareholder approval. The principles and remuneration structure described in the Directors' Remuneration Policy are currently applied in broadly the same way to senior officers. This means that, as for Irakli Gilauri, senior officers receive remuneration based on two components:

– salary, which includes both a modest cash sum and deferred share compensation which vests over a five-year period; and
– a discretionary award, payable 100% in deferred share compensation vesting over a two-year period, which is dependent on both Group performance and the executive achieving his KPIs.

3.1 Single total figure of remuneration for senior officers

The table below sets out the remuneration received by each of the Bank's senior officers for 2013 in respect of his employment with the Bank.

	Bank cash salary (US$) (Note 1)	Bank deferred share salary (US$) (Note 2)	Total salary (US$)	Discretionary deferred share compensation (US$) (Note 3)	Taxable benefits (US$) (Note 4)	Pension benefits (US$) (Note 4)	Dividend equivalents (US$) (Note 4)	Total (US$)
Nikoloz Gamkrelidze	150,000	640,872	790,872	576,905	3,506	1,439	23,649	1,396,371
Mikheil Gomarteli	150,000	534,060	684,060	616,692	4,226	1,296	37,148	1,343,421
Sulkhan Gvalia	150,000	534,060	684,060	616,692	950	1,439	31,965	1,335,106
Archil Gachechiladze	175,000	640,872	815,872	576,905	605	1,679	41,036	1,436,096
Avto Namichieshvili	150,000	640,872	790,872	576,905	486	1,627	42,331	1,412,221
Irakli Burdiladze	150,000	534,060	684,060	716,158	5,156	1,296	28,941	1,435,612
Murtaz Kikoria	150,000	534,060	684,060	716,158	173	898	29,373	1,430,662

Notes:
1) Bank cash salary is expressed in US Dollar but paid in Lari.
2) Deferred share salary. The figures show the value of BGH shares underlying nil-cost options granted in respect of service in 2013. The value is calculated by reference to the share price as of the date of the service contract which determined the number of shares underlying the award for the respective year. The value is calculated by reference to the share price of US$21.36 per share (based on the official share price of £13.80 per share converted into US Dollars using an exchange rate of 1.5480, being the official exchange rate published by the Bank of England on the same date) as at 18 February 2013, the date of the service contracts. Under the deferred share programme, the option awards in respect of deferred share salary are formally granted in January of the year following the work year even though the number of deferred salary shares is fixed in the contract. The terms and conditions applying to deferred share salary, and an explanation of why it is not subject to performance measures, are described in section 6.2(a) of the Directors' Remuneration Policy.
3) Discretionary deferred share compensation. The figures show the value of BGH shares underlying nil-cost options granted in respect of bonus awards in the relevant year. The value is calculated by reference to the share price as of the date of the award. For 2013, options were awarded on 25 February 2014. The share price on 25 February 2014 was US$39.79 per share (based on the official share price of £23.85 per share converted into US Dollars using an exchange rate of 1.6682, being the official exchange rate published by the Bank of England on the same date). The means of determining the number of shares underlying this compensation and the terms and conditions are described in sections 6.2(b) of the Directors' Remuneration Policy.
4) See footnotes 4, 5 and 6 in the table provided in section 2.3 above.

3.2 Shareholdings of senior officers

The following table sets forth the respective holdings of BGH shares of the senior officers as at 31 December 2012 and 2013.

	As at 31 December 2012			As at 31 December 2013		
	Number of vested BGH shares*	Number of unvested BGH shares	Total vested and unvested BGH shares	Number of vested BGH shares	Number of unvested BGH shares	Total vested and unvested BGH shares
Nikoloz Gamkrelidze	33	23,292	23,325	–	66,417	66,417
Mikheil Gomarteli	38,867	108,250	141,117	35,000	101,500	136,500
Sulkhan Gvalia	54,304	100,500	154,804	37,237	93,000	130,237
Archil Gachechiladze	–	112,167	112,167	–	115,000	115,000
Avto Namichieshvili	84,488	156,333	240,821	50,000	116,500	166,500
Irakli Burdiladze	–	93,000	93,000	–	88,500	88,500
Murtaz Kikoria	23,000	109,000	132,000	24,000	89,000	113,000

* Including shares held by Connected Persons.

4. Remuneration Committee and Advisers

The Remuneration Committee considers matters relating to executive management remuneration and remuneration for other senior management. Membership of the Remuneration Committee and attendance at meetings held in 2013 are shown in the table below.

Member	Independent	Meetings eligible to attend	Meetings attended
Al Breach (Chairman)	Yes	4	4
Neil Janin	Yes*	4	4
David Morrison	Yes	4	4
Secretary			
Kate Bennett Rea, on behalf of KB Rea Ltd.			

* Neil Janin was considered independent on appointment.

In addition to the formal meetings held during the year, the Remuneration Committee participated in various discussions by telephone outside of these meetings.

Neil Janin, the Chairman of BGH and a member of the Remuneration Committee, was considered independent at the time that he was appointed as Chairman of BGH.

Other attendees at Remuneration Committee meetings who provided advice to the Remuneration Committee on remuneration matters from time to time include Irakli Gilauri; the other Board members: Nikolaz Gamkrelidze (Deputy CEO, Finance at the Bank) and Avto Namichieshvili (Deputy CEO, Legal at the Bank). Attendees at Remuneration Committee meetings do not participate in discussions or decisions related to their own remuneration.

The Remuneration Committee seeks and considers advice from independent remuneration advisers where appropriate.

In 2013, on the basis of their recognised expertise in the area, the Remuneration Committee recommended that the Board appoint H2Glenfern to review the remuneration policies for executive management in light of the new Regulations and market practice and compare the Group against other FTSE 250 companies.

H2Glenfern voluntarily operates in accordance with the Code of Conduct of the Remuneration Consultants' Group in relation to executive remuneration consulting in the United Kingdom. H2Glenfern has confirmed that it has adhered to the Remuneration Consultant Group's Code of Conduct throughout the year for all remuneration services provided to BGH and the Remuneration Committee has therefore satisfied itself that all advice provided by H2Glenfern was objective and independent. H2Glenfern was paid a fixed fee of £11,700 for its remuneration consultancy services and does not provide services to the Group other than remuneration advice.

The Remuneration Committee also received advice from Freshfields Bruckhaus Deringer LLP, its legal advisors, on compliance with the new Regulations.

The Remuneration Committee's full Terms of Reference are available from the corporate governance section of our website, http://www.bogh.co.uk/en/corporate-governance

5. Shareholder Context

At BGH's AGM on 23 May 2013, votes cast by proxy and at the AGM in respect of the Directors' Remuneration Report for 2012 were as follows:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of the 2012 Directors' Remuneration Report	21,904,067	90.93	2,183,850	9.07	24,087,917	1,185,319

BGH was pleased by the positive vote but believed that some of the votes against the Directors' Remuneration Report may have been based on a misunderstanding of our remuneration structure, as it departs from the approach conventionally taken in the United Kingdom as explained in the Chairman's Statement above. Accordingly, in anticipation of the publication of the 2013 Directors' Remuneration Report and Director's Remuneration Policy, we met with a number of significant shareholders to discuss our remuneration structure. As described in the Chairman's Statement above, we were pleased by the feedback.

We recognise that the vesting period for the discretionary deferred share compensation is not in strict compliance with the Corporate Governance Code's (the Code) three-year vesting recommendation. As this Annual Report emphasises, however, our overall remuneration package is weighted heavily to deferred share compensation and includes deferred salary shares which vest over a five-year period following the work year. As a result, the average vesting period for deferred share compensation in excess of the Code's recommended minimum of three years. In these circumstances, we believe that we are in compliance with the spirit of the Code. In addition, as mentioned in the Chairman's Statement above, the total value of Mr Gilauri's discretionary deferred share compensation in any year may not exceed 50% of total salary. When his contract expires in 2016, the Remuneration Committee intends to reassess the mix between salary and discretionary remuneration for Mr Gilauri. Based on the long-term vesting of his deferred share salary, however, the Remuneration Committee believe that his current total remuneration package achieves direct and natural alignment of Mr Gilauri's interests with those of shareholders.

6. Directors' Remuneration Policy

6.1 Statement of implementation of Policy in 2014

The Policy will first take effect from the date of the 2014 AGM and, as such, there will be no significant changes between the Policy as described in this Annual Report and its implementation.

The Remuneration Policy applicable to Directors which is described in this section 6 of the Directors' Remuneration Report (the Policy) will be put to shareholders for a binding vote at the 2014 AGM. The Policy is consistent with the policy which was readopted by the Remuneration Committee in February 2013 with the three additions explained in the Chairman's Statement above and which are included in the Policy table at section 6.2 below.

Subject to shareholders' approval, the Policy will take effect from the date of the 2014 AGM and is intended to apply until the date of the AGM in 2017. As noted above, Mr Gilauri's service contract expires in 2016. If the terms of Mr Gilauri's new service contract differ from the Policy, we will come back to shareholders in 2016 for approval.

It is a provision of this Policy that the Group will honour all pre-existing obligations and commitments that were entered into prior to this Policy taking effect. The terms of those pre-existing obligations and commitments may differ from the terms of the Policy and may include (without limitation) obligations and commitments under service contracts, deferred share compensation schemes and pension and benefit plans.

6.2 Elements of the policy – Executive Directors

The Policy provides for an Executive Director's remuneration package to be comprised of the elements set forth below.

Component (Note 1)	Purpose and link to strategy	Operation	Opportunity
Salary in the form of: – cash; and – deferred shares.	Cash salary – Modest yet sufficient to cover reasonable living expenses and, when combined with the other elements of the package, competitive enough to attract, retain and develop high-calibre talent. Deferred share salary – Fixed compensation in the form of nil-cost options over BGH shares which vest over a five-year period promotes the long-term success of the Group by closely aligning the Executive Director's and shareholders' interests. Cash salary is paid in part under the Executive Director's service contract with the Bank and in part under his service contract with BGH, to reflect the Executive Director's duties to each of BGH and the Bank, respectively. Deferred share salary is paid under the Executive Director's service contract with the Bank.	Cash salary – Cash salary payable under the service contract with BGH is expressed in US Dollar but paid in GBP on each monthly payment date (Note 2). – Cash salary payable under the service contract with the Bank is expressed in US Dollar but paid in Lari on each bi-weekly payment date (Note 2). Deferred share salary – Awarded annually over the number of BGH shares that is stated in the Executive Director's service contract with the Bank. – Awards are formally granted in January of the first year following the work year, and vest as to 20% in January of each of the second, third and fourth years following the work year, and as to 40% in January of the fifth year following the work year. – At vesting (upon exercise of the nil-cost options), the Executive Director receives (in addition to the vested shares) cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date (Note 3). – Unvested deferred share salary lapses upon termination by BGH or the Bank "for cause" or by the Director other than for "good reason" or if the Director does not remain employed by the Group or serve as a Director of a subsidiary of the Group (each as defined in the relevant service contract and explained, in the case of Mr Gilauri, in section 6.5(b) below). There is no provision for the recovery or withholding of cash or deferred share salary.	Cash salary – The amount is fixed in the executive's contract with BGH and if applicable with the Bank. The total amount payable under Mr Gilauri's current contracts is US$437,500. Deferred share salary – The number of shares underlying each annual award is fixed for the duration of the Executive Director's contract with BGH and/or the Bank, as the case may be. The number of deferred salary shares under Mr Gilauri's current contract with the Bank is 90,000 per annum. The level of salary for an Executive Director is reviewed by the Remuneration Committee when the service contract is renewed. The next review will be in 2016.

Component (Note 1)	Purpose and link to strategy	Operation	Opportunity
Discretionary deferred share compensation	Annual performance-based compensation paid entirely in the form of nil-cost options over BGH shares which vest over a two-year period. As with the deferred share salary, this promotes the Group's long-term success by closely aligning the Executive Director's and shareholders' interests. The Group pays no cash bonus to its Executive Directors and has no LTIP.	– Awarded annually after the end of the work year in respect of which the award is made over a number of BGH shares that are determined annually by the Remuneration Committee based on the performance of the Group and the Bank and the achievement of the KPIs set for the Executive Director by the Remuneration Committee for the work year, see section 6.2(b) below. – Awards vest as to 50% in January of each of the second and third years following the work year. – At vesting (upon exercise of the nil-cost options), the Executive Director receives (in addition to the vested shares) cash payments equal to the dividends paid on the underlying shares between the date the award was made and the vesting date (Note 3). – Unvested deferred share compensation lapses upon termination by BGH or the Bank "for cause" or by the Executive Director other than for "good reason" or if the Director does not remain employed by the Group (each as defined in the relevant service contract, as is explained for Mr Gilauri in section 6.5(b) below). The Board has, however, reserved the right to permit unvested discretionary deferred shares to vest irrespective of the Executive Director's departure when such Executive Director departs on good terms with the Group. – If at any time after awarding discretionary deferred share compensation, it has been determined that there was a material misstatement in the financial results for the financial year in respect of which the award was formally granted, the Board has the right to cause some or all of the award for that financial year or for any subsequent financial year that is unvested at the time of its determination, not to vest and to lapse.	Discretionary deferred share compensation is granted out of a pool of shares made available for such awards for executive management. The Remuneration Committee reserves the right to award no discretionary deferred share compensation if the Group's performance is unsatisfactory or if the Executive Director's performance is poor in light of the KPIs set by the Remuneration Committee for the Executive Director. For Mr Gilauri, the maximum value of discretionary deferred share compensation that may be awarded in a given year for the remainder of his service contract with the Bank is capped at 50% of total salary, see section 6.2(b) below. Discretionary deferred share compensation for any Executive Director other than Mr Gilauri will not comprise more than 125% of the Executive Director's total salary. However, the Remuneration Committee has reserved the right to increase the maximum discretionary deferred share compensation to 150% of the Executive Director's total salary for performance that has resulted in outstanding benefits for shareholders.
Pension	The provision of retirement benefits helps to attract and retain high-calibre talent.	The Bank operates a defined contribution pension scheme. The Executive Director and the Bank each contribute a minimum of 1% of the Executive Director's gross monthly cash salary payable under his service contract with the Bank. There is no provision for the recovery or withholding of pension payments.	The Bank will match in additional contributions in a proportion of 0.2 to one, up to a maximum additional Bank contribution of 1% of gross monthly salary where the Director makes additional contributions up to 5% of gross monthly salary.
Benefits	Non-cash benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high-calibre talent.	Benefits consist of health insurance, disability insurance and Directors' and officers' liability insurance, mobile phone (including contract charges and costs of calls made during business trips abroad) and personal security arrangements (if requested by the Executive Director). A tax equalisation payment may be paid to a Director if any part of his remuneration becomes subject to double taxation. There is no provision for the recovery or withholding of benefits.	There is no prescribed maximum on the value of benefits payable to an Executive Director. If the Executive Director's personal circumstances do not change and the Bank is able to obtain benefits on substantially the same terms as at the date of the publication of this Policy, the aggregate cost of benefits for an Executive Director during the Policy's life is not expected to change materially.

Notes:
1) Under service contracts with BGH and/or the Bank (as applicable).
2) BGH cash salary is converted from US Dollar to GBP at the exchange rate published by the Bank of England on each monthly payment date. Bank cash salary is converted from US Dollar to Lari at the exchange rate published by the National Bank of Georgia on each bi-weekly payment date.
3) Dividend equivalents are paid in Lari as at the date dividends were paid to other shareholders.

(a) Salary

The deferred share salary comprises the most important element of the Executive Director's fixed annual remuneration and is commensurate with his role within the Group. By heavily weighting the base salary to deferred share compensation rather than cash, the Executive Director's day-to-day actions are geared towards sustained Group performance over the long term. The deferred share salary component is neither a bonus nor an LTIP: it is salary fixed at the outset of each three-year service contract and is therefore not subject to performance targets or measures. That salary, however, increases or declines in value depending on Group performance over the five-year vesting period, aligning the Executive Director's interests directly and naturally with those of shareholders.

(b) Discretionary deferred share compensation

The Group does not operate an LTIP because it believes there is sufficient long-term incentive built into its deferred share salary and discretionary deferred share compensation. No cash bonuses are paid to Executive Directors. Instead, individual and Group performance is rewarded through an award of discretionary deferred share compensation that vests over the two years following the work year. As discretionary deferred share compensation is awarded to reward past performance over the work year, it is not subject to any performance measures over the period from award to vesting.

The aggregate pool of shares available each year for awards of discretionary deferred share compensation for the Executive Director and all other members of executive management is determined annually by the Remuneration Committee in its discretion, based on a number of factors including:

– financial objectives (e.g. ROAE, operating leverage and Cost to Income ratio);
– business growth objectives (e.g. net loan book growth and deposit growth and fee and commission generation);
– risk management objectives (e.g. capital strength, liquidity management and cost of credit risk);
– the performance of the Bank relative to its competitors in Georgia and in the light of overall global market conditions; and
– (the market value of the shares at the time the discretionary share award is determined.

The number of shares over which an individual Executive Director's discretionary deferred share compensation will be granted is determined by the Remuneration Committee by reference to the performance of the Group and the Executive Director's KPIs, which are set for the Executive Director by the Remuneration Committee at the start of the financial year and which reflect the Executive Director's required contribution to the Group's overall key strategic and financial objectives for the financial year. See section 2.4 above for a description of the KPIs set for Mr Gilauri in respect of 2013 and his performance against these targets as well as the KPIs that have been set for him in respect of 2014.

While the Remuneration Committee has defined the set of factors to determine the aggregate pool of discretionary shares and evaluate an Executive Director's performance, it seeks to steer away from defining a series of narrow objectives for its Executive Directors and does not utilise strict weighting of performance measures. A high level of discretion is intentionally maintained when determining the quantum of discretionary deferred shares awarded to each Executive Director. Even in a "good" year for an Executive Director (e.g. achievement of most of his KPIs), in a "bad" year for the Group (e.g. poor financial performance by it) the Executive Director could receive little or no discretionary share compensation.

As mentioned in the Policy table above, the maximum value of discretionary deferred share remuneration that Mr Gilauri may be awarded in a given year for the remainder of his service contract with the Bank is capped at 50% of his total salary.

(c) Equity compensation trust and dilution limits

An equity compensation trust has been established for the purposes of satisfying deferred share compensation awarded to Executive Directors and members of the Executive Management Team. The trust was originally established in 2010 and shares committed to the trust in 2010 will continue to satisfy awards in respect of the 2013 work year. In the future, BGH will need to issue new shares or repurchase shares, or a combination of both, in order to ensure that there are a sufficient number of shares are committed to the trust in order to satisfy awards. However, the Group has committed to shareholders that new shares issued in satisfaction of deferred share compensation from the time of the Company's listing on the Premium Segment of the LSE will not exceed 10% of BGH's ordinary share capital over any 10-year period.

(d) Comparison with Remuneration Policy for employees generally

The components of the remuneration package for Executive Directors (as provided for by the Policy) are broadly the same as those for non-Board members of the Executive Management Team. Other members of senior management and middle management receive their entire salary in cash and do not receive deferred share salary. Their bonuses may be either in the form of cash and/or shares which vest over a three-year period following the award. All other employees within the Group receive a cash salary and may be eligible to receive cash bonuses, portions of which may be deferred until the publication of the audited annual results for the work year and/or based on continuous employment with the Group. The deferred portion of the cash bonus may also be reduced if it is revealed, upon completion of the annual audit, that the annual results published by the department where the employee works were incorrect in any material respect. All employees receive a competitive benefit package in line with Georgian market practice and are entitled to participate in the pension scheme on the same terms as applicable to Executive Directors.

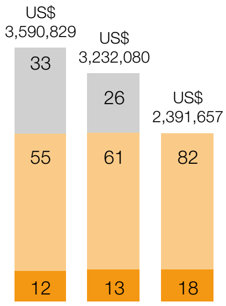
(e) Business expenses

Executive Directors are reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contracts, on provision of valid receipts.

6.3 Total remuneration opportunity for our sole Executive Director

The chart below shows the remuneration which Mr Gilauri, our sole Executive Director, could receive in respect of 2014 under the Policy at three different performance levels. It should be noted that, at the maximum level, over 88% of Mr Gilauri's 2014 compensation will be in the form of deferred shares for which the average vesting period exceeds three years. At the minimum level, over 82% of Mr Gilauri's 2014 compensation will be in the form of deferred shares for which the average vesting is just under four years.

Total remuneration opportunity for our sole Executive Director, %



- Discretionary deferred share compensation
- Deferred share salary
- Fixed cash remuneration

Notes:
1) Salary is comprised of cash, deferred share salary, benefits and pension contributions. Mr Gilauri's total cash salary in 2014 in respect of both his service contract with BGH and the Bank will be US$437,500. The value of the deferred share salary payable for 2014 was calculated by reference to the share price as at the date Mr Gilauri's service contract at the Bank was signed, being US$21.71 per share (the official share price of £14.06 per share as at 19 February 2013 converted into US Dollars using an exchange rate of 1.5503, being the official exchange rate published by the Bank of England on the same date), which is the value at which the shares were committed to the trust and underlies the determination of compensation expense in the Group's income statement for the year. Deferred share salary in respect of 2014 will be formally granted in January and will vest from January 2016 to January 2019. For the purposes of this graph, we have used the value of pension and benefits for 2013 as we assume that pension and benefits in 2014 will be substantially the same.
2) The means of determining the number of shares underlying the discretionary deferred share compensation and terms and conditions applying to this compensation are described in section 6.2(b) of this Directors' Remuneration Policy. Discretionary deferred shares in respect of 2014 will be formally granted in January 2015 and will vest in January 2016 and 2017.
3) Minimum opportunity reflects a scenario whereby Mr Gilauri receives only fixed remuneration, comprised of cash salary, deferred share salary, pension contributions and benefits and the Remuneration Committee considers that the Group's and/or the Director's performance in 2014 does not warrant any award of discretionary deferred share compensation
4) On target opportunity reflects a scenario whereby Mr Gilauri receives fixed remuneration (as described above) and assumes a discretionary deferred share compensation award at 70% of the maximum opportunity for Group and individual performance which is in line with the Group's expectation, which is excellent performance.
5) Maximum opportunity reflects a scenario whereby Mr Gilauri receives fixed remuneration (as described above) and a discretionary deferred share compensation award of 50% of total salary (i.e. the Remuneration Committee considers that the Group's and the individual's performance in 2014 warrant the highest possible level of discretionary deferred share compensation).
6) The value of deferred shares does not take into account any increase or decrease in share price over the vesting period or any dividend equivalents payable on vesting (upon exercise of the nil-cost options).

6.4 Elements of the policy – Non-Executive Directors

In 2013, each member of the Board of BGH, with the exception of Mr Gilauri, served as a member of the Supervisory Board of the Bank. Fees for Non-Executive Directors on both the Board of BGH and the Supervisory Board of the Bank are paid solely in cash. Each member received a base fee and was further remunerated for membership on the Audit Committee, Remuneration Committee and/or Nomination Committee, if applicable.

The Policy provides for a Non-Executive Director's remuneration package to be comprised of the following elements:

Component	Purpose and link to strategy	Operation	Opportunity
Base cash fee.	Combined BGH and Bank base cash fee is competitive enough to attract and retain experienced individuals. The Chairman and Senior Independent Non-Executive Director receive higher base fees which reflect increased responsibilities and time commitment.	Cash payment on a quarterly basis.	The amount of remuneration is reviewed every three years by the Remuneration Committee. The next review will be in 2017. The combined BGH and Bank base cash fee currently payable to Non-Executive Directors and Supervisory Board members is US$75,000 per year (US$37,500 for each of BGH and the Bank). The Remuneration Committee reserves the right, in its sole discretion, to amend and vary the fees if there are genuinely unforeseen and exceptional circumstances which necessitate such review and in such circumstances any significant increase shall be the minimum reasonably required. The maximum aggregate BGH fees for all Non-Executive Directors which may be paid under BGH's articles of association is £750,000.
Cash fee for each committee membership.	Additional fee to compensate for additional time spent discharging committee duties for BGH and the Bank.	Cash payment on a quarterly basis.	The amount of remuneration for committee membership is reviewed every three years by the Remuneration Committee. The next review will be in 2017. Fees for committee membership range from US$7,500 to US$15,000 per committee, depending on the committee and whether the Non-Executive Director is a committee chairman or member.

Notes:
1) Non-Executive Directors do not receive any deferred share salary or discretionary deferred share compensation, pensions, benefits or any variable or performance-linked remuneration or incentives.
2) Non-Executive Directors are reimbursed for reasonable business expenses, including travel expenses, incurred in the course of carrying out duties under their letter of appointments, on provision of valid receipts.
3) Non-Executive Directors who are appointed to the Board and/or to the Supervisory Board of the Bank by shareholders of BGH are required to waive any entitlements to fees which would otherwise be payable to them under the Policy for so long as they are appointees of a shareholder.

6.5 Policy on payments for loss of office

The following paragraphs (a) to (c) describe the Group's policy for payments on termination of Mr Gilauri's service contracts with BGH and the Bank. In 2013 and as of the date of this Annual Report, Mr Gilauri is the sole Executive Director on the BGH Board. The Group's policy for payments for loss of office for Non-Executive Directors is described in paragraph (d) below and its approach to payments for loss of office for future executive and Non-Executive Directors is described in paragraph 6.6 below.

The Directors' service contracts and letters of appointment are kept for inspection by shareholders at BGH's registered office.

(a) Termination of BGH service contract dated 15 December 2011

Mr Gilauri's service contract with BGH is for an indefinite term (subject to annual re-election at the AGM) and is terminable by either party on four months' written notice. Where the service contract is terminated on notice, BGH may put Mr Gilauri on garden leave for some or all of the notice period and continue to pay his cash salary under the BGH service contract, provided that any accrued and unused holiday entitlement shall be deemed to be taken during the garden leave period.

BGH may terminate Mr Gilauri's employment early with immediate effect and without notice and pay in lieu of notice in the case of, among other circumstances, his dishonesty, gross misconduct, conviction of an offence (other than traffic-related) or becoming of unsound mind.

BGH may also terminate the agreement with immediate effect by payment in lieu of notice, in which case the payment in lieu of notice shall be solely in respect of cash salary due under the BGH service contract as at the date of termination of employment.

(b) Termination of Bank service contract dated 19 February 2013

Mr Gilauri's service contract with the Bank is for an initial term of three years expiring on 1 May 2016, which may be renewed by agreement between the parties or terminated prior to the expiry of the term by either Mr Gilauri or the Bank. The Bank may terminate the service contract immediately without notice (subject to the terms set out below), whereas Mr Gilauri may terminate the contract upon three months' written notice or such shorter period as is agreed with the Supervisory Board of the Bank.

Separation payments

In the circumstances listed below where Mr Gilauri's service contract is terminated, he is entitled only to accrued and unpaid cash salary, accrued but not yet paid dividend equivalents, benefits, holiday pay and reimbursement of business expenses:

- termination by the Bank for "cause" (cause being defined as gross and wilful misconduct, material repeated failure to perform his duties or breach of his obligations or conviction of a felony, among other circumstances);
- termination by reason of death or disability (in which case he receives life or disability insurance benefits); or
- termination by Mr Gilauri other than for "good reason" (good reason meaning uncorrected material breach of the service contract by the Bank which is not cured within 45 days upon the executive serving notice of breach or material and unremedied illegal or unethical behaviour by Bank employees which has been notified to the Board by the executive and the Board fails to react and cooperate with the executive in addressing the behaviour).

If Mr Gilauri's service contract is terminated for any other reason, or is not renewed on substantially similar terms on expiry of the term of the service contract, he is entitled to a separation payment equal to 12 months' cash salary under the service contract plus any accrued and outstanding cash salary, holiday pay and reimbursement of business expenses. He will not be entitled to any additional severance or leaving allowance, reimbursements, pay in lieu of notice, benefits, compensation for sick leave or other similar payments other than in respect of his deferred share salary and discretionary deferred share compensation (summarised below).

The Bank may restrict Mr Gilauri from being employed in the financial industry and/or providing consulting or similar services to a competing financial institution for a period of up to six months following the termination of his employment, and will continue to pay him his full cash salary under the Bank service contract as compensation for his unemployment for the first four months of this period. In addition, the Bank may impose a two-year non-compete period in exchange for accelerated vesting of his deferred share compensation (as described below).

Deferred share compensation on termination

Mr Gilauri will be entitled to a pro-rata award of his deferred share salary in respect of any incomplete calendar year which he has worked, and may also be awarded discretionary deferred share compensation in respect of such incomplete calendar year if:

- his service contract expires and is not renewed upon substantially similar terms and he is not offered, or is offered and accepts, continued membership of the BGH and/or Bank Board; or
- his service contract is terminated before its expiry date but he continues as a member of the BGH and/or Bank Board.

Mr Gilauri will not be entitled to any deferred share salary for calendar years covered by the contract period during which he has not worked.

Vesting and lapse of existing awards

If Mr Gilauri's service contract is terminated for cause or by him other than for good reason, his unvested deferred share compensation will, unless otherwise agreed with the Board, lapse on the termination date.

Any unvested deferred share compensation of Mr Gilauri will vest immediately if:

- his service contract is terminated by the Bank other than for cause; is terminated by him for good reason; or expires and neither a renewed agreement nor Board membership is offered; or
- he ceases to be an Executive Director by reason of death, disability, injury, redundancy or retirement at normal retirement age; or
- there is a change of control of the Bank or BGH.

If Mr Gilauri's service contract expires and he is offered but refuses membership of the board of a company within the Group, 50% of his unvested deferred share compensation will vest immediately and the remaining 50% will, at his discretion, either continue to vest as normal or he may acquire some or all of the underlying shares for a specified price based on the price of the shares on grant in accordance with the terms of the service contract plus a 10% annual increase from the respective grant date until the date of acquisition. In consideration for this vesting treatment, Mr Gilauri will be bound by a two-year non-compete period during which he may not be employed by, provide consultancy services to or otherwise found or be a partner or associate of a commercial bank in Georgia (save that he may hold less than 5% of shares of a publicly listed bank).

If Mr Gilauri's service contract expires and is not renewed upon substantially similar terms but he is offered and accepts continued or renewed membership of the BGH and/or Bank Board, 50% of his unvested shares vest immediately and the remaining 50% shall continue to vest as normal.

If he subsequently ceases to be a member of the Bank and/or BGH Board, at Mr Gilauri's discretion, unvested shares either continue to vest as normal or he may acquire some or all of the underlying shares for the specified price as described above.

Mr Gilauri will be paid cash payments equivalent to the dividends accrued on his deferred share compensation. Such payments will be made on the vesting date in respect of dividends paid from the date the award was made to the vesting date. Such cash payments shall accrue and be payable on any vested shares, even if Mr Gilauri's service contract with the Bank has been terminated prior to vesting. The Bank will not pay any cash equivalent in respect of dividends on any deferred share compensation that has lapsed.

(c) Previous service contract with the Bank dated 25 May 2010

Any unvested awards granted under Mr Gilauri's previous service contract with the Bank (for the period from 25 May 2010 until and including 30 April 2013) shall vest immediately on termination of his current service contract for any reason, except that (i) if his current agreement is terminated by the Bank for cause, any unvested awards shall (unless the Board determines otherwise) lapse, and (ii) if it is terminated by Mr Gilauri for any reason other than for good reason (and unless the Board determines otherwise to his advantage), 50% of the unvested awards will vest immediately and the remaining 50% will, at his discretion, either continue to vest as normal or the underlying shares may be acquired for the specified price as above.

(d) Termination of Non-Executive Directors' appointments

The Board has developed a succession plan pursuant to which a Non-Executive Director may serve no longer than seven and a half years on the Board of BGH. Letters of appointment provide for an initial term of three years and are renewed for an additional three years or shorter period of time depending on the tenure of the Non-Executive Director. Notwithstanding the foregoing, each Non-Executive Director is required to submit himself for annual re-election at the AGM. The letters of appointment for each Non-Executive Director were executed on 10 April 2014. Details regarding Non-Executive Director appointments and planned resignations are shown in section 2.13.

The letters of appointment provide for a one-month notice period although BGH may terminate the appointment with immediate effect without notice or pay in lieu of notice if the Non-Executive Director has committed any serious breach or non-observance of his or her obligations to BGH, is guilty of fraud or dishonesty, brings BGH or him/herself into disrepute or is disqualified as acting as a Non-Executive Director, among other circumstances. Upon termination, the only remuneration a Non-Executive Director is entitled to is accrued fees as at the date of termination together with reimbursement of properly incurred expenses incurred prior to the termination date.

6.6 Policy on the appointment of external hires and internal appointments

Any new Executive Director appointed to the Board would be paid no more than the Remuneration Committee considers reasonably necessary to attract a candidate with the relevant skills and experience. His or her remuneration package would comprise the components described in section 6.2 above. The Remuneration Committee may, in its discretion and taking into account the role assumed by the new Executive Director, vary the amount of any component in the package. This discretion will only be exercised to the extent required to facilitate the recruitment of the particular individual. In addition, the terms and conditions attaching to any component of the remuneration might be varied insofar as the Remuneration Committee considers it necessary or desirable to do so in all the circumstances.

Relocation support for an incoming Executive Director and, where relevant, his or her family may be provided depending on the individual's circumstances. BGH has not set a maximum aggregate amount that may be paid in respect of any individual's relocation support, but it will aim to provide support of an appropriate level and quality on the best terms that can reasonably be obtained.

Upon the recommendation of the Remuneration Committee, the Group may "buy out" incentive awards which were granted to an incoming Executive Director by a previous employer and which have been foregone. In these circumstances, the approach will be to match the estimated current value of the foregone awards by granting awards of deferred share compensation which vest over a similar timeframe to the awards being bought out. The application of performance conditions and/or clawback provisions may also be considered, where appropriate. Such new awards may be granted in addition to any deferred share salary and discretionary deferred share compensation.

Any payment upon termination of a new Executive Director's service contract would not exceed 12 months' cash salary under the relevant service contract, plus any accrued and unpaid cash salary, benefits and holiday pay and reimbursement of any business expenses. The Group may also continue to pay a former Executive Director his full cash salary for any period following the termination of his appointment during which he is prohibited from competing with the Group.

It is expected that the following vesting provisions will apply to deferred share compensation in the case of termination of a new Executive Director's service contract:

– Unvested deferred share compensation would lapse upon termination of the service contract by BGH or the Bank for cause, termination by the Executive Director other than for good reason or if the Executive Director's employment is terminated for any other reason and he is not offered continued membership of the Board or the Bank's Supervisory Board.
– Unvested deferred share compensation would continue to vest in the normal way during the respective vesting period(s) upon termination by BGH or the Bank without cause, if the Executive Director's service contract expires and he is not offered a new service contract on substantially similar terms on expiration or if the Executive Director ceases to be an Executive Director by reason of injury, disability, redundancy or retirement (at normal retirement age).
– Unvested deferred share compensation would vest immediately upon death of the Executive Director, termination of the service contract by the Executive Director for good reason or a change of control.

Notwithstanding the above, the Board reserves the right to permit unvested deferred share compensation to vest irrespective of the Executive Director's departure when such Executive Director departs on good terms with the Group.

Any new Non-Executive Director appointed to the Board would be paid no more than the Remuneration Committee considers reasonably necessary in light of market practice among other FTSE 250 companies and the current remuneration of other Non-Executive Directors. His or her remuneration package would comprise the same components as for the existing Non-Executive Directors.

If an existing employee of the Group is appointed as an executive or Non-Executive Director, any obligation or commitment entered into with that individual prior to his appointment will be honoured by the Group in accordance with the terms of those obligations or commitments, even where they differ from the terms of the Policy.

6.7 Consideration of shareholder views and employment conditions elsewhere in the Group

As noted in the Chairman's Statement, the Group sought the views of a number of its shareholders with respect to the structure of executive remuneration. Many of the shareholders consulted strongly endorsed the Policy and the Group believes that shareholder questions and concerns were addressed.

The Remuneration Committee considers the pay and employment conditions of executive management (other than Directors) when determining an Executive Director's remuneration as well as changes in pay and employment conditions across the Group as a whole in relation to the proposed pay for Directors. The Remuneration Committee consults with the Human Relations department, Executive Management and other employees during the year to seek feedback on the executive remuneration structure and takes such views into account when analysing its Policy. In 2013, the employees consulted confirmed that they were satisfied with the manner in which they were compensated. In taking this information into account in determining an Executive Director's remuneration, the Remuneration Committee relies on its judgement, particularly given that international comparisons are the most relevant for senior management and the Georgian labour market is more relevant for other employees.

NOMINATION COMMITTEE REPORT

Neil Janin
Chairman of Nomination Committee

NEIL JANIN, CHAIRMAN OF THE BOARD NOMINATION COMMITTEE, GIVES HIS PERSONAL VIEW OF THE BOARD NOMINATION COMMITTEE'S ACTIVITIES DURING 2013.

Chairman's Overview

In 2013, we focused on strengthening, broadening, balancing and understanding the range of skills, experience and diversity on the Board and its Committees. The implementation of our succession plan developed in 2012 was a key achievement in 2013 and a number of significant changes were made to the Board in order to strengthen independent oversight.
When initiating our search for new Non-Executive Directors, we developed a job specification for each appointment. Our appointment policy is predicated on appointing the best possible candidates based on merit, against objective criteria. We embrace diversity in all of its forms and ensured that our shortlist of candidates included individuals from a diverse range of backgrounds and that such a list was gender-neutral.

As a result of this year-long search, we were very pleased to welcome three fully Independent Non-Executive Directors – Kim Bradley, Tamaz Georgadze and Bozidar Djelic in December 2013 following the departure of Allan Hirst, Ian Hague and Hanna Loikkanen.

In conjunction with these appointments, we have also reviewed our Committee composition during the year, recommending the appointment of Mr Bradley as a member of both the Audit and Nomination Committees. Mr Georgadze and Mr Djelic were also recommended for appointment to the Nomination Committee.

Who is on the Nomination Committee and what are its Responsibilities?

Membership of the Committee and attendance at meetings held in 2013 are shown in the table below.

2013 COMMITTEE MEMBERSHIP

Member	Independent	Meetings eligible to attend	Meetings attended
Neil Janin (Chairman)	N/A*	4	4
David Morrison	Yes	4	4
Allan Hirst	Yes	4	4
Alasdair Breach	Yes	4	4
Kaha Kiknavelidze	Yes	4	4
Ian Hague	No	4	4
Hanna Loikkanen	No	4	4
Kim Bradley	Yes	1	1
Tamaz Georgadze	Yes	1	1
Bozidar Djelic	Yes	1	1
Secretary			
Kate Bennett Rea, on behalf of KB Rea Ltd.			

* Neil Janin was deemed independent on appointment.

In summary, the Committee's role is to:

- review the composition of the Board and Board Committees to ensure they are appropriately constituted and balanced in terms of skills and experience;
- develop and consider succession plans for the Chairman, Chief Executive Officer, Non-Executive Directors and key senior managerial roles;
- identify and recommend to the Board the appointment of new Directors as well as evaluate the suitability of Directors standing for re-election at the AGM;
- evaluate the independence of the Non-Executive Directors;
- agree the process for the annual Board Effectiveness Review and track the progress of any actions arising; and
- review the Committee's report within the Annual Report and recommend its approval to the Board.

The Committee's full Terms of Reference are available from the section of our website, http://www.bogh.co.uk/en/corporate-governance

How did the Nomination Committee Discharge its Responsibilities in 2013?

This year, in line with our 2012-13 action plan, the Committee spent a significant amount of time discussing succession planning. We undertook a review of the structure, size, composition and balance of skills on the Board and Committees with a particular focus on tenure and independence.

As a result of this review, we determined that Mr Hirst, Mr Hague and Ms Loikkanen should each retire from the Board upon the selection of new fully independent Non-Executive Directors with the required skill set necessary to complement the Board. Following a lengthy search for suitable candidates, we recommended the appointment of Mr Bradley, Mr Georgadze and Mr Djelic in December 2013 in conjunction with the retirement of Mr Hirst, Mr Hague and Ms Loikannen.

In 2013, we also discussed the appointment renewal for myself, Mr Morrison, Mr Gilauri, Mr Breach and Mr Kiknavelidze as well as refining our succession plan, taking into consideration the new composition of our Board, balance of skills as well as tenure of the Directors recommended for appointment renewal. The proposed retirement of each Board member is presented on page 87 of this Annual Report.

The Group has historically placed a high emphasis on diversity and will continue to do so looking forward. Geographic and gender diversity together with key technical expertise in banking, risk, accountancy, finance, technology and international business all form core components of our Board succession planning. Balancing all of these factors to maintain an effective Board is a delicate matter and we do not believe that imposing quotas is appropriate in this context.

Throughout the year, we have also undertaken training in order to remain up to date on significant developments and how these might impact the Group. To ensure that the Committee is operating effectively, we carried out our Committee review at the time of the Board Effectiveness Review. The Committee is reviewed by the members themselves as well as by the Board as a whole. Following the review, the Committee was found to be operating effectively.

Looking Ahead to 2014

For 2014, the Committee will continue to focus on succession planning and Board and Committee refreshment, based on a continuous review of Board and Board Committee composition against our skills and experience requirements and diversity guidance. We will also look to have greater visibility of potential candidates for key senior positions with the Group. A review of induction training as well as ongoing training and knowledge of all Directors will also be a priority.

Neil Janin
Chairman
Board Nomination Committee
10 April 2014

DIRECTORS' REPORT

Principal Activities and Business Review

Bank of Georgia Holdings PLC (Company No. 7811410) is the holding company for the Group. The Group is principally engaged in the core businesses of Retail Banking, Corporate Banking and Investment Management, as well as the synergistic businesses of Insurance, Healthcare and Affordable Housing.

We are required to present a fair review of our business during the financial year ended 31 December 2013, our position at year-end, and a description of the principal risks and uncertainties that we face. This review enables shareholders to assess how the Directors have performed their duties under the Companies Act 2006.

The information required for the business review and certain other disclosures can be found in this Directors' Report and the following sections of the Annual Report, which are incorporated in this Directors' Report.

Chairman's Statement
pages 4 and 5

Chief Executive's Officer's Statement
pages 6 to 9

Market Overview
pages 12 and 13

Our Strategy
pages 16 and 17

Key Performance Indicators
pages 18 and 19

Risks and Uncertainties
pages 20 to 27

Business Review – Overview of Financial Results
pages 30 to 35

Segment Discussions
pages 36 to 47

Risk Management
pages 48 to 57

Sustainability Review
pages 58 to 63

Directors' Governance Report
pages 68 to 71

Directors' Remuneration Report
pages 80 to 95

Articles of Association

BGH's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. The BGH Articles of Association are available on BGH's website http://www.bogh.co.uk/en/corporate-governance

Share Capital and Control

Information about share capital, restrictions on the transfer of shares or voting rights and special rights with regard to control of BGH is shown in Note 20 to the Consolidated Financial Statements on page 156 of this Annual Report and is incorporated into this report by reference.

The powers of the Directors, including in relation to the issue or buy back of the Company's shares, are set out in the Companies Act 2006 and the Company's articles of association. The Directors were granted authorities to issue and allot shares and to repurchase shares at the 2013 AGM. Shareholders will be asked to renew these authorities at the 2014 AGM.

Results and Dividends

BGH may by ordinary resolution declare dividends provided that no such dividend shall exceed the amount recommended by BGH's Directors. The Directors may also pay interim dividends as appear to be justified by the profits of BGH available for distribution.

As BGH is a holding company, BGH relies primarily on dividends and other statutorily (if any) and contractually permissible payments from its subsidiaries to generate the funds necessary to meet its obligations and pay dividend to its shareholders.

As a result of the Bank's strong financial performance and condition, the BGH Board has recently recommended an annual dividend of GEL 2.0 payable in British Pounds Sterling, which is subject to shareholders' approval at the 2014 AGM. If approved, the dividend will be paid on 18 June 2014 to shareholders on the UK register of members at the close of business in the UK (6:00 pm London time) on 6 June 2014.

Powers of Directors

The Directors may exercise all powers of BGH subject to applicable legislation and regulation and BGH's Articles of Association.

Conflicts of Interest

In accordance with the Companies Act 2006, the Directors have adopted a policy and procedure for the disclosure and authorisation (if appropriate) of conflicts of interest, and these have been followed during 2013.

Appointment and Retirement of Directors

The appointment and replacement of Directors is governed by BGH's Articles of Association, the Code, the Companies Act 2006, related legislation and regulations. The Articles may only be amended by a special resolution of the shareholders of BGH.

The Board has the power to appoint additional Directors or to fill a casual vacancy amongst the Directors. Under the Articles of Association, any such Director holds office only until the next AGM and may offer himself/herself for re-election. The Articles of Association also require that at each AGM at least one-third of the Directors retire by rotation. The retiring Directors are eligible to stand for re-election. We note that the Corporate Governance Code recommends that all Directors of FTSE 350 companies should be subject to annual re-election. We abide by this recommendation and, as a result, all Directors will stand for re-election at this year's AGM.

Directors' Remuneration

Directors' fees are determined by the Board from time to time. Directors' fees (as distinct from any salary, remuneration or other amount payable to a Director pursuant to other provisions of the Articles of Association or otherwise) may not exceed £750,000 per annum in aggregate or such higher amounts as may from time to time be determined by ordinary resolution of BGH. The fees paid to the Directors pursuant to their letters of appointment or service contract, in the case of Mr Gilauri, are shown on pages 82 to 85 of this Annual Report respectively.

Directors' Interests

The Directors' beneficial interests in ordinary shares of BGH as at 31 December 2013 are shown on page 86 of this Annual Report.

Indemnity

Subject to applicable legislation, every current and former Director or other officer of BGH (other than any person engaged by the company as auditor) shall be indemnified by BGH against any liability in relation to BGH, other than (broadly) any liability to BGH or a member of the Group, or any criminal or regulatory fine.

Related Party Transactions

Details of related party transactions are set out in Note 30 to the Consolidated Financial Statements on pages 179 to 181 of this Annual Report.

Significant Contracts and Agreements

At no time during 2013 did any Director hold a material interest in any contracts of significance with BGH or any subsidiary of the Group. BGH is not party to any significant agreements that would take effect, alter or terminate following a change of control of BGH.

Political Donations

The Group did not make any political donations or expenditures during 2013.

Code of Conduct and Ethics

The Board has adopted a Code of Conduct relating to the lawful and ethical conduct of the business, supported by the Group's core values. The Code of Conduct has been communicated to all Directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators in the communities in which the Group operates. Our Code of Conduct is available on our website http://www.bogh.co.uk/en/corporate-governance

Major Interests in Shares

The following table lists shareholders with voting rights of more than 3% as of 31 December 2013 and 31 March 2014. The 31 March 2014 information has been derived from sources available to BGH, primarily through regulatory filings.

	As of 31 March 2014		As of 31 March 2013	
Shareholder	**Number of voting rights**	**% of voting rights**	Number of voting rights	% of voting rights
Schroders Investment Management	2,852,338	7.94%	862,542	2.40%
Franklin Templeton Investments	2,277,350	6.34%	2,153,853	6.00%
European Bank for Reconstruction and Development	1,817,503	5.06%	1,817,503	5.06%
Royal Bank of Canada[1]	1,445,214	4.02%	1,853,249	5.16%
Firebird Group of Funds	1,373,066	3.82%	2,762,921	7.69%
East Capital Financial Institutions	–	–	2,005,106	5.58%
International Finance Corporation	–	–	1,817,503	5.06%
Wellington Management Company	–	–	1,748,609	4.87%
Others	26,143,912	72.82%	20,888,097	58.18%
Total	**35,909,383**	**100%**	**35,909,383**	**100%**

1. Bank of Georgia Holdings PLC ESOP – the shares allocated to the Bank's share-based employee compensation plans.

Source: Georgeson, Computershare

The respective regulatory filings by shareholders are available on the BGH website: http://bogh.co.uk/en/announcements/bank-of-georgia-holdings-plc/press-releases and the London Stock Exchange website: http://www.londonstockexchange.com/news/news/finance.htm

Relations with Shareholders

The Code encourages a dialogue with shareholders based on the mutual understanding of objectives, a responsibility that the Company takes very seriously.

The Board's primary contact with institutional shareholders is through the Chairman, Senior Independent Non-Executive Director, Chief Executive Officer and Head of Investor Relations, each of whom provide a standing invitation to shareholders to meet and discuss and matters they wish to raise. Our Committee Chairmen also make themselves available to answer questions from investors.

We formally communicate with our shareholders via our AGM, Annual Report and Accounts, Half-Year Report and website on which we publish Interim Management Statements. These are supported by a combination of presentations, conference calls, one-to-one meetings and investor meetings in the United Kingdom, Europe and the United States.

In November 2013, the Company hosted an investor day at the Bank's headquarters in Tbilisi. This investor day was open to all investors and provided an opportunity for investors to meet with the Board and raise matters of interest. The Company was pleased to host 55 institutional investors.

As mentioned in our Remuneration Report on pages 80 to 95 of this Annual Report, in the first quarter of this year, members of our Remuneration Committee also met with the Company's significant shareholders as well as shareholder advisory groups to discuss and seek feedback on the Company's remuneration structure.

The Chairman has overall responsibility for ensuring that the Board understands the views of major shareholders. The Board also receives a regular report from the Investor Relations team. Feedback from meetings held between executive management, or the Investor Relations team, and institutional shareholders is also communicated to the Board.

Annual General Meeting

Our AGM will be held at 10:00 am (London time) on Wednesday, 28 May 2014 at Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London EC4Y 1HS. Details of the business to be conducted at the AGM are contained in the Notice of AGM.

Statement of the Directors in Respect of the Annual Report and Financial Statements

As required by the Code, the Directors confirm that they consider that the Annual Report (which includes the accounts), taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

In arriving at this position the Board was assisted by a number of processes that form part of its internal control and risk management systems, including the following:

– the Annual Report is drafted by appropriate senior management with overall co-ordination by the Head of Investor Relations to ensure consistency across sections;
– an extensive verification process is undertaken to ensure factual accuracy;
– comprehensive reviews of drafts of the Annual Report are undertaken by the CEO and other senior executive management;
– an advanced draft is considered and reviewed by BGH's legal advisers; and
– the final draft is reviewed by the Audit Committee prior to consideration by the Board.

Statement of Directors' responsibilities

We are responsible for preparing the Annual Report, the Director's Remuneration Report and the accompanying Consolidated and Stand-Alone Financial Statements in accordance with applicable law and regulations. Company law requires us to prepare financial statements for each financial year. Under the law, we have elected to prepare the accompanying Consolidated and Stand-Alone Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable law.

Under company law, we must not approve the accompanying Consolidated and Stand-Alone Financial Statements unless we are satisfied that they give a true and fair view of the state of affairs of the Group and BGH and of the profit or loss of the Group and BGH for that period.

In preparing the accompanying Consolidated and Stand-Alone Financial Statements, we are required to:

a) select suitable accounting policies and then apply them consistently;
b) make judgements and accounting estimates that are reasonable and prudent;
c) state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

We are also responsible for keeping adequate accounting records that are sufficient to show and explain BGH's and the Group's transactions, to disclose with reasonable accuracy at any time the financial position of BGH and the Group, and to enable us to ensure that the Consolidated and Stand-Alone Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Consolidated and Stand-Alone Financial Statements, Article 4 of the IAS Regulation.

We have further responsibility for safeguarding the assets of BGH and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We are also responsible for the maintenance and integrity of BGH's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. Each of us listed in the Board of Directors section of this Annual Report who held office at the date of this Annual Report confirms that to the best of his knowledge:

a) the accompanying Consolidated and Stand-Alone Financial Statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of BGH and the Group taken as a whole; and
b) the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of BGH and Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

In accordance with section 418(2) of the Companies Act 2006, each of us that held office at the date of the approval of this Directors' Report confirms that, so far as he is aware, there is no relevant audit information of which BGH's auditors are unaware and each of us has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's statutory auditors are aware of such information.

Going Concern

The Directors believe that the Group is well positioned to manage its risks successfully in the current uncertain economic environment. After making enquiries, the Directors have a reasonable expectation that BGH and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accompanying Consolidated Financial Statements.

Statement of Compliance

As BGH is listed on the London Stock Exchange, we comply with the UK Corporate Governance Code, save for Section D.1.1, which is described in greater detail in the Directors' Remuneration Report of this Annual Report. The Code is publicly available for review on the Financial Reporting Council's website at www.frc.org.uk

Greenhouse Gas (GHG) Emissions

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 (Scope 1 and 2) and additionally have reported on those emissions under Scope 3 that are applicable to our business. All reported sources fall within our Consolidated Financial Statements which can be found on pages 106 to 182 of this Annual Report. We do not have responsibility for any emission sources that are not included in our Consolidated Financial Statements.

In preparing this emission data, we have used the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol (GHG): A Corporate Accounting and Reporting Standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2014.

Total GHG emissions data for period beginning 1 January 2013 and ended 31 December 2013, tonnes of CO_2.

	2012	2013
Scope 1 (emissions from combustion of fuel and operation of facilities)	8,023	8,453
Scope 2 (emissions from electricity, heat, steam and cooling purchased for own use)	5,411	5,457
Scope 3 (emissions from air travel and land transportation)	2,163	2,165
Total GHG emissions	**15,597**	**16,075**
Total GHG emissions per FTE	**1.55**	**1.53**

The reported data is collected and reported for the boundaries of four of the Group's main businesses:

- Banking (represented by the Bank), which includes all of its offices and retail branches where the Bank has operational control.
- Real estate development (represented by m2), which includes its main office and two construction sites.
- Insurance (represented by Aldagi), which includes all of its offices and retail branches where the Company has operational control.
- Healthcare (represented by MFC), which includes its main office and hospitals where the Company has operational control.

Scope 1 (combustion of fuel and operation of facilities) includes emissions from:

- Combustion of natural gas, diesel, and petrol in stationary equipment at owned and controlled sites.
- Combustion of petrol, diesel, and aviation fuel in owned transportation devices (cars and aeroplane).

Scope 2 (electricity, heat, steam and cooling purchased for own use) includes emissions from:

- Used electricity at owned and controlled sites; to calculate the emissions, we used conversion factor for Non-OECD Europe and Eurasia (average) conversion from UK Government's GHG Conversion Factors for Company Reporting 2014.
- Used heat and steam (only applies to one site of Aldagi).

Scope 3 includes emissions from:

- Air business travel (short haul and long haul); information on the class of travel is unavailable hence we used an "average passenger" conversion factor.
- Ground transportation, including taxi, coaches, and car hire.

Data on emissions resulting from travel is reported for business-related travel only, and excludes commuting travel. Data from joint ventures, investments, or sub-leased properties have not been included within the reported figures.

The data is provided by on-site delegates, invoices, and meter readings.

Management Report

This Directors' Report together with the Strategic Report on pages 1 to 63 forms the Management Report for the purposes of DTR 4.1.5 R.

By order of the Board

Kathy Bennett Rea

Kate Bennett Rea, on behalf of KB Rea Ltd.
Company Secretary
10 April 2014

REPORT TO MEMBERS

Independent Auditor's Report to the Members of Bank of Georgia Holdings PLC

We have audited the financial statements of Bank of Georgia Holdings PLC for the year ended 31 December 2013 which comprise the Group and Parent Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Cash Flow, the Group and Parent Company Statements of Changes in Equity and the related Notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 100, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Our assessment of risks of material misstatement and our response to those risks

We identified the following risks that have had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

- The appropriateness of the allowance for impairment of loans.
  We documented the Group's process for determining the allowance, performed a walkthrough to confirm the process was operating as expected and identified key controls. We examined the Group's documented borrower assessment, recalculated the allowance, compared actual to planned repayments and considered the expected cash flows from collateral. We also performed analytical procedures over the reasonableness of the allowance.
- The Group's financial accounting systems are highly dependent on IT systems and controls.
  We evaluated the design and operating effectiveness of the IT systems that are relevant to financial reporting. We examined the controls over programme development and changes, access to programs and data and IT operations in respect of those IT systems. Having established a basis to rely on IT general controls, we tested the automated controls relevant to the financial statements.
- Fair value of investment properties and premises.
  We challenged management's assumptions used in the determination of the fair value of investment properties and premises. We engaged valuations specialists to work with the audit team to evaluate the appropriateness of the valuations.

Our application of materiality

We apply the concept of materiality in both planning and performing the audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Group to be GEL 12,200,000, which is approximately 5% of profit before tax. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timings and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 50% of materiality, namely GEL 6,100,000. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality level.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of GEL 610,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, our audit scope focused on five components which represent the principal business units within the Group and account for 93% of the Group's total assets and 96% of the Group's profit before tax. Two of these were subject to a full scope audit, whilst the remaining three were subject to a specific scope audit where the extent of audit work was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations at that location. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. For the remaining components, we performed other procedures to confirm there were no significant risks of material misstatement in the Group financial statements.

The Group audit team operated as an integrated primary team involving personnel in London and Tbilisi. The Senior Statutory Auditor was responsible for the direction, supervision, performance and review of the audit. This was achieved through a schedule of planned visits and regular meetings in Tbilisi.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 101, in relation to going concern; and the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Andrew McIntyre

A J McIntyre
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
10 April 2014

Notes:

1. The maintenance and integrity of the Bank of Georgia Holdings PLC website is the responsibility of the Directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STRENGTH THROUGH DIVERSITY

TARGETING STRONG GROWTH

IN THIS FINANCIAL STATEMENTS SECTION

FINANCIAL STATEMENTS: STAND-ALONE STATEMENT OF FINANCIAL POSITION

As at 31 December 2013
(All amounts are in Thousands of Georgian Lari)

	Notes	2013	2012
Assets			
Cash and cash equivalents		**4,628**	12,309
Investments in subsidiaries	2	**858,205**	799,389
Other assets		**550**	38
Total assets		**863,383**	**811,736**
Liabilities			
Other liabilities		**8,441**	14,019
Total liabilities		**8,441**	**14,019**
Equity			
Share capital		**1,028**	957
Other reserves		**4,943**	416
Retained earnings		**848,971**	796,344
Total equity		**854,942**	**797,717**
Total liabilities and equity		**863,383**	**811,736**

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

Irakli Gilauri
Chief Executive Officer
10 April 2014

FINANCIAL STATEMENTS: STAND-ALONE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013
(All amounts are in Thousands of Georgian Lari)

	Share capital	Other reserves	Retained earnings	Total equity
31 December 2011	**–**	**–**	**–**	**–**
Total comprehensive income	–	–	22,476	22,476
Conversion of shares following the Tender Offer	565,120	221,553	–	786,673
Capital reduction (Note 20)	(560,844)	(220,243)	781,087	–
GBP-GEL translation effect	(3,319)	(894)	16,399	12,186
Dividends to shareholders of the Group (Note 20)	–	–	(23,618)	(23,618)
31 December 2012	**957**	**416**	**796,344**	**797,717**
Total comprehensive income	–	–	49,865	49,865
GBP-GEL translation effect	71	4,527	53,997	58,595
Dividends to shareholders of the Group (Note 20)	–	–	(51,235)	(51,235)
31 December 2013	**1,028**	**4,943**	**848,971**	**854,942**

For the year ended 31 December 2013
(All amounts are in Thousands of Georgian Lari)

	2013	2012
Cash flows used in operating activities		
Fees and commissions paid	**(217)**	(581)
Salaries and other employee benefits paid	**(1,382)**	(1,064)
General and administrative expenses paid	**(3,513)**	(600)
Cash flows used in operating activities before changes in operating assets and liabilities	**(5,112)**	**(2,245)**
Net (decrease) increase in other liabilities	**(4,935)**	13,033
Net cash flows used in operating activities	**(10,047)**	**10,788**
Cash flow from investing activities		
Dividends received	**54,589**	25,669
Cash flow from investing activities	**54,589**	**25,669**
Cash flow used in financing activities		
Dividends paid	**(51,235)**	(23,618)
Net cash used in financing activities	**(51,235)**	**(23,618)**
Effect of exchange rates changes on cash and cash equivalents	**(988)**	(530)
Net (decrease) increase in cash and cash equivalents	**(7,681)**	**12,309**
Cash and cash equivalents, beginning	**12,309**	**–**
Cash and cash equivalents, ending	**4,628**	**12,309**

FINANCIAL STATEMENTS: CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013
(All amounts are in Thousands of Georgian Lari)

	Notes	**2013**	2012	2011
Assets				
Cash and cash equivalents	7	**1,053,671**	762,827	628,731
Amounts due from credit institutions	8	**347,261**	396,559	289,530
Investment securities available-for-sale	9	**519,623**	463,960	419,576
Loans to customers	10	**3,477,309**	3,020,634	2,553,442
Finance lease receivables	11	**45,606**	71,686	62,919
Investments in associates		**–**	2,441	3,014
Investment properties	12	**157,707**	160,353	101,686
Property and equipment	13	**470,669**	430,877	348,110
Intangible assets		**26,434**	23,078	21,222
Goodwill	14	**48,720**	45,657	46,195
Current income tax assets		**4,552**	944	8,487
Deferred income tax assets		**14,544**	14,352	14,852
Prepayments		**25,534**	41,147	29,929
Other assets	16	**329,339**	221,080	137,568
Total assets		**6,520,969**	**5,655,595**	**4,665,261**
Liabilities				
Amounts due to customers	17	**3,117,732**	2,693,025	2,735,222
Amounts due to credit institutions	18	**1,886,096**	1,657,162	921,172
Current income tax liabilities		**2,928**	13,818	1,174
Deferred income tax liabilities		**66,100**	46,184	36,242
Provisions	19	**481**	683	386
Other liabilities	16	**206,578**	185,211	158,462
Total liabilities		**5,279,915**	**4,596,083**	**3,852,658**
Equity	20			
Share capital		**1,028**	957	32,878
Additional paid-in capital		**23,843**	14,767	473,732
Treasury shares		**(56)**	(69)	(3,146)
Other reserves		**(16,399)**	14,097	14,478
Retained earnings		**1,174,124**	981,322	254,588
Total equity attributable to shareholders of the Group		**1,182,540**	**1,011,074**	**772,530**
Non-controlling interests		**58,514**	48,438	40,073
Total equity		**1,241,054**	**1,059,512**	**812,603**
Total liabilities and equity		**6,520,969**	**5,655,595**	**4,665,261**

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

Irakli Gilauri
Chief Executive Officer
10 April 2014

The accompanying notes on pages 116 to 182 are an integral part of these consolidated financial statements.

For the year ended 31 December 2013
(All amounts are in Thousands of Georgian Lari)

	Notes	2013	2012	2011
Interest income				
Loans to customers		**522,847**	509,339	438,989
Investment securities – available-for-sale		**35,371**	33,950	37,701
Amounts due from credit institutions		**8,423**	15,813	18,103
Finance lease receivables		**7,466**	8,701	6,565
		574,107	**567,803**	**501,358**
Interest expense				
Amounts due to customers		**(159,028)**	(202,484)	(167,294)
Amounts due to credit institutions		**(100,585)**	(79,492)	(99,763)
		(259,613)	**(281,976)**	**(267,057)**
Net interest income before net (loss) gain from interest rate swaps		**314,494**	**285,827**	**234,301**
Net (loss) gain from interest rate swaps		**(398)**	(1,710)	4,984
Net interest income		**314,096**	**284,117**	**239,285**
Fee and commission income		**115,106**	109,278	93,541
Fee and commission expense		**(28,210)**	(22,791)	(18,204)
Net fee and commission income	21	**86,896**	**86,487**	**75,337**
Net insurance premiums earned		**129,993**	91,176	46,396
Net insurance claims incurred		**(84,660)**	(57,038)	(28,658)
Net insurance revenue	22	**45,333**	**34,138**	**17,738**
Healthcare revenue		**60,013**	54,376	5,700
Cost of healthcare services		**(37,644)**	(31,030)	(3,242)
Net healthcare revenue	23	**22,369**	**23,346**	**2,458**
Revenue from sale of goods		**42,252**	41,533	22,470
Cost of sales		**(29,760)**	(30,868)	(12,109)
Net revenue from sale of goods		**12,492**	**10,665**	**10,361**
Net gain from trading securities and investment securities available-for-sale		**3,097**	2,308	1,382
Net gain from revaluation of investment properties	12	**9,788**	–	1,984
Net gain (loss) from foreign currencies:				
– dealing		**46,330**	33,389	45,694
– translation differences		**(2,818)**	16,182	30,747
Other operating income		**7,871**	7,623	8,767
Other operating non-interest income		**64,268**	**59,502**	**88,574**
Revenue		**545,454**	**498,255**	**433,753**
Salaries and other employee benefits	24	**(135,065)**	(122,556)	(114,622)
General and administrative expenses	24	**(60,364)**	(67,041)	(61,942)
Depreciation and amortisation		**(26,572)**	(28,606)	(27,254)
Other operating expenses		**(3,564)**	(2,949)	(6,347)
Operating expenses		**(225,565)**	**(221,152)**	**(210,165)**
Operating income before cost of credit risk		**319,889**	**277,103**	**223,588**

The accompanying notes on pages 116 to 182 are an integral part of these consolidated financial statements.

	Notes	2013	2012	2011
Operating income before cost of credit risk		**319,889**	**277,103**	**223,588**
Impairment charge on loans to customers	10	**(41,499)**	(39,186)	(23,216)
Impairment charge on finance lease receivables	11	**(2,809)**	(495)	(317)
Impairment (charge) reversal of impairment on other assets and provisions		**(17,494)**	(5,036)	1,337
Cost of credit risk		**(61,802)**	**(44,717)**	**(22,196)**
Net operating income		**258,087**	**232,386**	**201,392**
Net non-operating expense	25	**(12,831)**	(19,634)	(29,338)
Profit before income tax expense from continuing operations		**245,256**	**212,752**	**172,054**
Income tax expense	15	**(35,913)**	(33,200)	(21,125)
Profit for the year from continuing operations		**209,343**	**179,552**	**150,929**
Net gain (loss) from discontinued operations		**–**	–	(15,219)
Profit for the year		**209,343**	**179,552**	**135,710**
Attributable to:				
– shareholders of the Group		**201,490**	174,437	132,531
– non-controlling interests		**7,853**	5,115	3,179
		209,343	**179,552**	**135,710**
Earnings per share, total:	20			
– basic earnings per share		**5.9291**	5.2218	4.4375
– diluted earnings per share		**5.9291**	5.1737	4.1957
Earnings per share from continuing operations:	20			
– basic earnings per share from continuing operations		**5.9291**	5.2218	4.9470
– diluted earnings per share from continuing operations		**5.9291**	5.1737	4.6499

The accompanying notes on pages 116 to 182 are an integral part of these consolidated financial statements.

For the year ended 31 December 2013
(All amounts are in Thousands of Georgian Lari)

	Notes	2013	2012	2011
Profit for the year from continuing operations		**209,343**	**179,552**	**150,929**
Net gain (loss) from discontinued operations		**–**	–	(15,219)
Profit for the year		**209,343**	**179,552**	**135,710**
Other comprehensive income (loss)				
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:				
– Unrealised revaluation of available-for-sale securities		**4,611**	960	3,511
– Realised gain on available-for-sale securities reclassified to the consolidated income statement		**(2,858)**	(2,075)	(1,721)
– Gain (loss) from currency translation differences		**8,922**	172	(52,493)
Income tax effect	15	**(872)**	690	5,674
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods		**9,803**	**(253)**	**(45,029)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
– Revaluation of property and equipment	13	**1,591**	–	1,285
Income tax effect	15	**(223)**	–	(93)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**1,368**	**–**	**1,192**
Other comprehensive gain from discontinued operations		**–**	–	24,254
Other comprehensive income (loss) for the year, net of tax		**11,171**	**(253)**	**(19,583)**
Total comprehensive income for the year from continuing operations		**220,514**	179,299	107,092
Total comprehensive income for the year from discontinued operations		**–**	–	9,035
Total comprehensive income for the year		**220,514**	**179,299**	**116,127**
Attributable to:				
– shareholders of the Group		**213,597**	174,304	121,045
– non-controlling interests		**6,917**	4,995	(4,918)
		220,514	**179,299**	**116,127**

The accompanying notes on pages 116 to 182 are an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS: CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013
(All amounts are in Thousands of Georgian Lari)

	Attributable to shareholders of the Group							
	Share capital	Additional paid-in capital	Treasury shares	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
31 December 2010	**31,345**	**477,285**	**(1,510)**	**26,816**	**130,314**	**664,250**	**29,091**	**693,341**
Total comprehensive income	–	–	–	(9,208)	130,253	121,045	(4,918)	116,127
Depreciation of revaluation reserve, net of tax	–	–	–	(3,190)	3,190	–	–	–
Increase in share capital arising from share-based payments (Note 20)	33	2,717	148	–	–	2,898	–	2,898
Increase in share capital from issuance of GDRs (Note 20)	1,500	–	(1,500)	–	–	–	–	–
Dividends to shareholders of the Group (Note 20)	–	–	–	–	(9,169)	(9,169)	–	(9,169)
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	60	–	60	2,453	2,513
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	13,447	13,447
Sale of treasury shares	–	26,776	1,268	–	–	28,044	–	28,044
Purchase of treasury shares	–	(33,046)	(1,552)	–	–	(34,598)	–	(34,598)
31 December 2011	**32,878**	**473,732**	**(3,146)**	**14,478**	**254,588**	**772,530**	**40,073**	**812,603**
Total comprehensive income	–	–	–	(465)	174,769	174,304	4,995	179,299
Depreciation of revaluation reserve, net of tax	–	–	–	(622)	622	–	–	–
Increase in share capital arising from share-based payments	–	30,213	602	–	–	30,815	–	30,815
Issue of share capital (Note 20)	3,635	70,313	–	–	–	73,948	–	73,948
Conversion of shares following the Tender Offer	(35,570)	23,983	2,507	(497)	(4,589)	(14,166)	14,166	–
Capital reduction (Note 20)	–	(582,388)	–	–	582,388	–	–	–
GBP-GEL translation effect	14	2,828	(4)	–	(2,838)	–	–	–
Transactions costs recognised directly in equity	–	(3,325)	–	–	–	(3,325)	–	(3,325)
Dividends to shareholders of the Group (Note 20)	–	–	–	–	(23,618)	(23,618)	–	(23,618)
Dilution of interests in subsidiaries	–	–	–	15	–	15	128	143
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	(86)	–	(86)	749	663
Acquisition of non-controlling interests in existing subsidiaries	–	–	–	1,274	–	1,274	(11,673)	(10,399)
Sale of treasury shares	–	89	5	–	–	94	–	94
Purchase of treasury shares	–	(678)	(33)	–	–	(711)	–	(711)
31 December 2012	**957**	**14,767**	**(69)**	**14,097**	**981,322**	**1,011,074**	**48,438**	**1,059,512**
Total comprehensive income	–	–	–	(29,069)	242,666	213,597	6,917	220,514
Depreciation of revaluation reserve, net of tax	–	–	–	(1,797)	1,797	–	–	–
Increase in share capital arising from share-based payments	–	13,906	19	–	–	13,925	–	13,925
GBP-GEL translation effect	71	–	(3)	358	(426)	–	–	–
Dividends to shareholders of the Group (Note 20)	–	–	–	–	(51,235)	(51,235)	–	(51,235)
Dilution of interests in subsidiaries	–	–	–	–	–	–	150	150
Acquisition of additional interests in existing subsidiaries by non-controlling shareholders	–	–	–	12	–	12	2,958	2,970
Non-controlling interests arising on acquisition of subsidiary	–	–	–	–	–	–	51	51
Purchase of treasury shares	–	(4,830)	(3)	–	–	(4,833)	–	(4,833)
31 December 2013	**1,028**	**23,843**	**(56)**	**(16,399)**	**1,174,124**	**1,182,540**	**58,514**	**1,241,054**

The accompanying notes on pages 116 to 182 are an integral part of these consolidated financial statements.

For the year ended 31 December 2013
(All amounts are in Thousands of Georgian Lari)

	Notes	2013	2012	2011
Cash flows from operating activities				
Interest received		**559,604**	553,090	494,782
Interest paid		**(239,544)**	(270,691)	(244,478)
Fees and commissions received		**104,099**	109,278	93,541
Fees and commissions paid		**(28,211)**	(22,791)	(18,204)
Insurance premiums received		**126,640**	79,007	46,070
Insurance claims paid		**(88,161)**	(55,197)	(26,106)
Healthcare revenue received		**57,953**	54,376	5,700
Cost of healthcare services paid		**(33,661)**	(31,030)	(3,242)
Revenue received from sale of goods		**75,591**	41,533	22,470
Cost of sales of goods		**(72,759)**	(30,868)	(12,109)
Net realised gains (losses) from trading securities		**61**	375	(236)
Net realised gains from investment securities available-for-sale		**2,858**	2,075	1,721
Net realised gains from foreign currencies		**46,330**	33,389	45,694
Recoveries of loans to customers previously written off	10	**27,479**	29,979	28,849
Other (expenses paid) income received		**(23,035)**	5,949	15,266
Salaries and other employee benefits paid		**(109,626)**	(110,639)	(96,011)
General and administrative and operating expenses paid		**(62,916)**	(68,340)	(69,269)
Cash flows from operating activities before changes in operating assets and liabilities		**342,702**	**319,495**	**284,438**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		**49,297**	(99,925)	(179,682)
Loans to customers		**(534,365)**	(562,345)	(239,413)
Finance lease receivables		**(6,777)**	(9,262)	(49,095)
Prepayments and other assets		**11,956**	(59,339)	(63,668)
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions		**204,142**	761,167	(213,068)
Amounts due to customers		**425,641**	(52,871)	708,242
Other liabilities		**(2,662)**	(28,243)	(32,707)
Net cash flows from operating activities before income tax		**489,934**	**268,677**	**215,047**
Income tax paid		**(29,834)**	(3,282)	(7,000)
Net cash flows from operating activities		**460,100**	**265,395**	**208,047**
Cash flows (used in) from investing activities				
Acquisition of subsidiaries, net of cash acquired	5	**(7,810)**	(9,008)	408
Proceeds from sale of subsidiary		**–**	–	8,747
Purchase of investment securities available-for-sale		**(48,033)**	(43,347)	(117,904)
Proceeds from sale of investments in associates		**–**	170	332
Proceeds from sale of investment properties	12	**10,748**	15,622	7,889
Proceeds from sale of property and equipment and intangible assets	13	**5,317**	–	–
Purchase of property and equipment and intangible assets		**(70,592)**	(60,880)	(76,239)
Net cash flows used in investing activities		**(110,370)**	**(97,443)**	**(176,767)**

The accompanying notes on pages 116 to 182 are an integral part of these consolidated financial statements.

	Notes	2013	2012	2011
Cash flows (used in) from financing activities				
Dividends paid		**(51,235)**	(23,618)	(9,169)
Purchase of treasury shares		**(4,833)**	(711)	(34,598)
Sale of treasury shares		**–**	94	28,044
Proceeds from sale of non-controlling interest in existing subsidiary		**–**	663	2,453
Purchase of additional interests in existing subsidiaries,net of cash acquired		**–**	(10,399)	–
Net cash used in financing activities		**(56,068)**	**(33,971)**	**(13,270)**
Effect of exchange rates changes on cash and cash equivalents		**(2,818)**	115	(863)
Net increase in cash and cash equivalents		**290,844**	**134,096**	**17,147**
Cash and cash equivalents, beginning	7	**762,827**	**628,731**	**611,584**
Cash and cash equivalents, ending	7	**1,053,671**	**762,827**	**628,731**

The accompanying notes on pages 116 to 182 are an integral part of these consolidated financial statements.

(All amounts are in 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 licence issued by the National Bank of Georgia (NBG; the Central Bank of Georgia) on 15 December 1994.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally, and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2013, the Bank had 202 outlets operating in all the major cities of Georgia (31 December 2012: 194; 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 mainly incorporated in Georgia and Belarus. Its primary business activities include providing banking, leasing, insurance, healthcare, brokerage and investment management services to corporate and individual customers.

In December 2011, Bank of Georgia Holdings PLC (BGH), a public limited liability company newly incorporated in England and Wales, launched the Tender Offer (the Tender Offer) to exchange its entire ordinary share capital for an equivalent number of the Bank's ordinary shares, and thus to acquire the entire issued and to-be-issued share capital, including those shares represented by Global Depositary Receipts (GDRs) of the Bank. Following the successful completion of the Tender Offer on 28 February 2012 and subsequent acquisitions of the Bank's remaining shares held by non-controlling shareholders by the Bank, BGH holds 99.62% of the share capital of the Bank as at 31 December 2013, representing the Bank's ultimate parent company. Together with the Bank's subsidiaries, BGH makes up a group of companies (the Group). The list of the companies included in the Group is provided in Note 2. The shares of BGH (BGH shares) were admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 28 February 2012 (the Admission, Note 20). 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 W1K 5EH.

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

As at 31 December 2013, 31 December 2012 and 31 December 2011, the following shareholders owned more than 4% of the total outstanding shares of the Group. Other shareholders individually owned less than 4% of the outstanding shares.

Shareholder	**31 December 2013**	31 December 2012	31 December 2011
Franklin Templeton Investments	**7.21%**	5.04%	–
International Finance Corporation	**5.06%**	5.06%	–
European Bank for Reconstruction and Development	**5.06%**	5.06%	–
Royal Bank of Canada	**4.87%**	6.72%	–
Firebird Management LLC	**3.82%**	7.94%	–
East Capital Financial Institutions*	**0.04%**	17.62%	4.16%
Bank of New York (Nominees), Limited**	**–**	–	91.45%
Others	**73.94%**	52.56%	4.39%
Total* **	**100.00%**	**100.00%**	**100.00%**

* Includes shares held by East Capital Private Equity AB and East Capital Asset Management AB.
** In 2011, all GDR holders' interests were held through Bank of New York (Nominees), Limited (the custodian).
*** For the purposes of calculating the percentage of shareholding, the denominator includes the total number of issued shares, which includes shares held in the trust for the share-based compensation purposes of the Bank.

As at 31 December 2013, the members of the Supervisory Board and Management Board owned 413,932 shares or 1.2% (31 December 2012: 540,987 shares or 1.5%; 31 December 2011: 474,246 shares and GDRs, or 1.4%) of the Group. The interests of the members of the Supervisory Board and Management Board were as follows:

Shareholder	31 December 2013, shares held	31 December 2012, shares held	31 December 2011, shares and GDRs held
Giorgi Chiladze[1]	82,000	–	14,000
Irakli Gilauri	60,831	206,431	194,379
Avto Namicheishvili	50,000	84,488	39,823
Allan Hirst[2]	48,434	60,434	60,434
Sulkhan Gvalia	37,237	54,304	58,638
Mikheil Gomarteli	35,000	38,867	10,634
David Morrison	26,357	26,357	20,357
Kaha Kiknavelidze	26,337	26,337	26,337
Neil Janin	25,729	25,729	15,729
Al Breach	14,279	10,279	10,279
Ian Hague[2]	5,112	5,112	5,112
Hanna Loikkanen[2]	2,616	2,616	2,616
Nikoloz Gamkrelidze[3]	–	33	–
Archil Gachechiladze	–	–	10,000
Vasil Revishvili[4]	–	–	5,908
Total	**413,932**	**540,987**	**474,246**

1. Giorgi Chiladze rejoined the Management Board of the Bank in September 2013, after having previously served as Deputy CEO, Finance, until stepping down in March 2012. As at 31 December 2012, Giorgi Chiladze held 70,500 shares.
2. Stepped down from the Board of Directors of the BGH and the Supervisory Board of the Bank on 19 December 2013.
3. Joined the Management Board on his appointment as Deputy CEO, Finance in October 2012.
4. In February 2013, the Bank announced that the service contract of Vasil Revishvili would not be extended after its expiration on 1 May 2013.

2. Basis of Preparation

General

Comparative financial statements as at and for the year ended 31 December 2012 have been drawn up from the date of incorporation of BGH (14 October 2011) to 31 December 2012. In accordance with the exemption permitted under section 408 of the Companies Act 2006, the stand-alone income statement of BGH is not presented as part of these accounts. These consolidated financial statements are prepared as if the Group is a continuation of the pre-existing group of companies, with the Bank as its ultimate parent. Comparative financial statements as at and for the year ended 31 December 2011 is that of the group of companies consolidated with the Bank as its ultimate parent.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Board (IASB) effective for 2013 reporting and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Bank and its Georgian-based subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari, while BGH and the Bank's subsidiaries established outside of Georgia are in their respective local currencies. These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets and liabilities held for trading, available-for-sale securities, investment properties and revalued property and equipment. No interest income or expense arose in relation to financial assets or liabilities at fair value through profit or loss.

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

Going concern

The BGH's Board of Directors has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(All amounts are in Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries and associates

BGH holds a 99.62% stake in the Bank as at 31 December 2013. The consolidated financial statements as at 31 December 2013, 31 December 2012 and 31 December 2011 include the following subsidiaries and associates:

	Proportion of voting rights and ordinary share capital held						
Subsidiaries	**31 December 2013**	31 December 2012	31 December 2011	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC Bank of Georgia (Note 8)	**99.62%**	99.62%	–	Georgia	Banking	21/10/1994	–
Georgia Investments, LLC	**100.00%**	100.00%	–	Georgia	Various	17/02/2012	–
JSC BG Capital	**100.00%**	100.00%	100.00%	Georgia	Brokerage and asset management	19/12/1995	28/12/2004
Benderlock Investments Limited	**100.00%**	100.00%	100.00%	Cyprus	Investments	12/05/2009	13/10/2009
BG Tax Advisory, LLC	**–**	Note 1	100.00%	Georgia	Tax consulting	25/09/2007	–
BG Commodities (Ukraine), LLC	**–**	Note 2	100.00%	Ukraine	Commodity Trading	24/11/2009	–
Galt and Taggart Holdings Limited	**100.00%**	100.00%	100.00%	Cyprus	Investment	03/07/2006	–
BG Trading Limited	**Note 3**	100.00%	100.00%	Cyprus	Investment	26/03/2007	–
BG Capital (Ukraine), LLC	**–**	Note 2	100.00%	Ukraine	Brokerage	23/10/2006	–
BG Capital (Belarus), LLC	**100.00%**	100.00%	100.00%	Belarus	Brokerage	19/02/2008	–
Brooksby Investments Limited	**Note 4**	100.00%	100.00%	Cyprus	Investments	04/03/2008	18/06/2008
JSC Belarusky Narodny Bank	**79.99%**	79.99%	79.99%	Belarus	Banking	16/04/1992	03/06/2008
BNB Leasing, LLC	**99.90%**	99.90%	99.90%	Belarus	Leasing	30/03/2006	03/06/2008
JSC Geohydro	**85.00%**	–	–	Georgia	Renewable Energy	11/10/2013	–
JSC Svaneti Hydro	**100.00%**	–	–	Georgia	Renewable Energy	06/12/2013	–
JSC Insurance Company Aldagi BCI	**100.00%**	100.00%	100.00%	Georgia	Insurance	22/06/2007	–
Biznes Centri Kazbegze, LLC	**100.00%**	100.00%	100.00%	Georgia	Various	22/06/2010	10/01/2011
JSC My Family Clinic	**51.00%**	51.00%	51.00%	Georgia	Healthcare	03/10/2005	–
JSC Kutaisi St. Nicholas Surgical and Oncological Hospital (Formerly known as JSC Kutaisi St. Nicholas Surgery Hospital)	**81.00%**	71.87%	55.00%	Georgia	Medical services	03/11/2000	20/05/2008
Kutaisi Regional Clinical Hospital, LLC	**100.00%**	100.00%	100.00%	Georgia	Medical services	19/07/2010	10/01/2010
JSC Zugdidi multi profile Clinical Hospital "Republic"	**100.00%**	100.00%	100.00%	Georgia	Medical services	11/06/1998	29/11/2011
JSC Kutaisi County Treatment and Diagnostic Centre for Mothers and Children	**66.70%**	66.70%	66.70%	Georgia	Medical services	05/05/2003	29/11/2011
JSC Chkhorotskhu Regional Central Hospital	**100.00%**	100.00%	100.00%	Georgia	Medical services	30/11/1999	29/11/2011
Academician Z. Tskhakaia National Centre of Intervention Medicine of Western Georgia, LLC	**66.70%**	66.70%	66.70%	Georgia	Medical services	15/10/2004	12/09/2011
E.K. Pipia Central Hospital of Tsalenjikha, LLC	**100.00%**	100.00%	100.00%	Georgia	Medical services	01/09/1999	12/09/2011
Martvili Multi profile Hospital, LLC	**100.00%**	100.00%	100.00%	Georgia	Medical services	17/03/2000	12/09/2011
Abasha Outpatient-Polyclinic Union, LLC	**100.00%**	100.00%	100.00%	Georgia	Medical services	16/03/2000	12/09/2011
Tskaltubo Regional Hospital, LLC	**66.70%**	66.70%	66.70%	Georgia	Medical services	29/09/1999	12/09/2011
Khobi Central Regional Hospital, LLC	**100.00%**	100.00%	100.00%	Georgia	Medical services	13/07/2000	12/09/2011
Kutaisi Training Centre, NPO	**100.00%**	–	–	Georgia	Education	20/12/2013	–

Subsidiaries	Proportion of voting rights and ordinary share capital held: **31 December 2013**	31 December 2012	31 December 2011	Country of incorporation	Industry	Date of incorporation	Date of acquisition
Imedi L Dent, LLC	**Note 5**	100.00%	–	Georgia	Medical services	17/01/2005	05/01/2012
Aliance, LLC	**100.00%**	100.00%	–	Georgia	Various	03/01/2005	05/01/2012
Green Way, LLC	**100.00%**	100.00%	–	Georgia	Various	09/08/2008	05/01/2012
Centromed, LLC	**100.00%**	100.00%	–	Georgia	Medical services	09/07/2010	05/01/2012
Unimed Achara, LLC	**100.00%**	100.00%	–	Georgia	Medical services	29/06/2010	05/01/2012
Unimedi Samtskhe, LLC	**100.00%**	100.00%	–	Georgia	Medical services	29/06/2010	05/01/2012
Unimedi Kakheti, LLC	**100.00%**	100.00%	–	Georgia	Medical services	29/06/2010	05/01/2012
LLC Caraps Medline	**100.00%**	–	–	Georgia	Medical services	26/08/1998	26/12/2013
LLC Medline +	**100.00%**	–	–	Georgia	Medical services	13/12/2007	30/12/2013
Georgian Leasing Company, LLC	**100.00%**	100.00%	100.00%	Georgia	Leasing	29/10/2001	31/12/2004
JSC Global Express (formerly known as JSC GC Holdings)	**100.00%**	100.00%	100.00%	Georgia	Investment	29/10/2007	–
JSC Georgian Card	**56.20%**	56.20%	71.78%	Georgia	Card processing	17/01/1997	20/10/2004
Direct Debit Georgia, LLC	**100.00%**	100.00%	100.00%	Georgia	Electronic payment services	07/03/2006	–
LLC Didi Digomi Research Centre (formerly known as MetroNet, LLC)	**100.00%**	100.00%	100.00%	Georgia	Communication services	23/04/2007	–
JSC Liberty Consumer	**67.51%**	67.49%	67.08%	Georgia	Investment	24/05/2006	–
JSC Teliani Valley	**50.88%**	51.23%	51.14%	Georgia	Winery	30/06/2000	28/02/2007
Teliani Trading (Georgia), LLC	**100.00%**	100.00%	100.00%	Georgia	Distribution	10/01/2006	27/03/2007
Teliani Trading (Ukraine), LLC	**100.00%**	100.00%	100.00%	Ukraine	Distribution	03/10/2006	31/12/2007
Le Caucase, LLC	**100.00%**	100.00%	100.00%	Georgia	Cognac Production	23/09/2006	20/03/2007
Kupa, LLC	**70.00%**	70.00%	70.00%	Georgia	Oak Barrel Production	12/10/2006	20/03/2007
JSC Intertour	**99.94%**	99.94%	97.02%	Georgia	Travel agency	29/03/1996	25/04/2006
Holiday Travel, LLC	**–**	Note 6	100.00%	Georgia	Travel agency	02/11/2005	09/04/2006
JSC Prime Fitness	**100.00%**	100.00%	100.00%	Georgia	Fitness centre	07/03/2006	–
Planeta Forte, LLC	**–**	Note 7	51.00%	Georgia	Newspaper Retail	31/10/1995	01/01/2009
JSC m2 Real Estate (formerly known as JSC SB Real Estate)	**100.00%**	100.00%	100.00%	Georgia	Real estate	27/09/2006	–
Tamarashvili 13, LLC	**100.00%**	100.00%	100.00%	Georgia	Real estate	03/11/2011	–
m2 at Kazbegi, LLC	**100.00%**	–	–	Georgia	Real estate	21/05/2013	–
m2 at Tamarashvili, LLC	**100.00%**	–	–	Georgia	Real estate	21/05/2013	–
m2 at Nutsubidze, LLC	**100.00%**	–	–	Georgia	Real estate	21/05/2013	–
JSC Galt and Taggart Holdings (Georgia)	**100.00%**	100.00%	100.00%	Georgia	Investment	04/11/2008	–
Caucasus Autohause, LLC	**100.00%**	100.00%	100.00%	Georgia	Real estate	29/03/2011	–
Metro Service +, LLC	**100.00%**	100.00%	100.00%	Georgia	Business servicing	10/05/2006	–
Bank of Georgia Representative Office UK Limited	**100.00%**	100.00%	100.00%	United Kingdom	Information Sharing and Market Research	17/08/2010	–
Professional Basketball Club Dinamo Tbilisi, LLC	**100.00%**	100.00%	100.00%	Georgia	Sport	10/01/2011	–
Teaching University of Georgian Bank, LLC	**100.00%**	–	–	Georgia	Education	15/10/2013	–
JSC United Securities Registrar of Georgia	**100.00%**	100.00%	100.00%	Georgia	Registrar	29/05/2006	–

(All amounts are in Thousands of Georgian Lari)

2. Basis of Preparation (continued)

Subsidiaries	Proportion of voting rights and ordinary share capital held **31 December 2013**	31 December 2012	31 December 2011	Country of incorporation	Industry	Date of incorporation	Date of acquisition
Bank of Georgia Representative Office Hungary	**100.00%**	100.00%	–	Hungary	Representative Office	18/06/2012	–
Georgia Financial Investments, LLC	**100.00%**	100.00%	100.00%	Israel	Information Sharing and Market Research	09/02/2009	–
Bank of Georgia Future Foundation, NPO	**100.00%**	–	–	Georgia	Charitable activities	25/08/2008	–

Notes:
1) Merged to JSC BG Capital (Georgia) in 2012.
2) Liquidated in 2012.
3) Merged to Galt and Taggart Holdings Limited LLC.
4) Liquidated in 2013.
5) No longer Group subsidiary due to sale in 2013.
6) Merged to JSC Intertour in 2012.
7) No longer Group subsidiary due to sale in 2012.
8) JSC Bank of Georgia was the ultimate parent in 2011 and 2010.

Associates	Proportion of voting rights and ordinary share capital held **31 December 2013**	31 December 2012	31 December 2011	Country of incorporation	Industry	Date of incorporation	Date of acquisition
JSC N Tour	**30.00%**	30.00%	30.00%	Georgia	Travel services	11/01/2001	29/05/2008
JSC Hotels and Restaurants Management Group – m/Group	**10.00%**	10.00%	25.00%	Georgia	Food retail	30/05/2005	29/05/2008
JSC iCall	**27.00%**	27.00%	27.00%	Georgia	Call centre	22/03/2005	22/11/2006
JSC Caucasus Automotive Retail	**–**	–	30.00%	Georgia	Car retail	18/04/2008	5/02/2008
Style +, LLC	**32.50%**	32.50%	32.50%	Georgia	Advertising	08/01/2005	8/07/2008

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

The Group has adopted the following amended IFRS during the year:

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.

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 consolidated financial statements for the Group, as there are no tax consequences attached to cash or non-cash distribution.

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.

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. The Group early adopted IFRS 10, which had no impact on the Group's financial position or performance.

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 Group early adopted IFRS 11, which had no impact on the Group's financial position or performance, as it has no joint arrangements.

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. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. The Group early adopted IFRS 12, which had no impact on the Group's financial position or performance, as it has no subsidiaries with material non-controlling interests or unconsolidated structured entities.

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 affected the consolidated financial statements for the period.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013. Control is achieved when the Group 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. Specifically, the Group controls an investee if and only if the Group has:
– power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
– exposure, or rights, to variable returns from its involvement with the investee; and
– the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
– the contractual arrangement with the other vote holders of the investee;
– rights arising from other contractual arrangements; and
– the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. Summary of Significant Accounting Policies (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interests.
- Derecognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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

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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 28.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition.

Date of recognition

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

Loans and receivables

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

Available-for-sale financial assets

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

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss.
- In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognised.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from central banks, excluding obligatory reserves with central banks, and amounts due from credit institutions that mature within 90 days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

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

Borrowings

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

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

3. Summary of Significant Accounting Policies (continued)

Subordinated debt

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

Leases

Finance – Group as lessor

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

Operating – Group as lessee

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

Operating – Group as lessor

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

Impairment of financial assets

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

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

Amounts due from credit institutions, loans to customers and finance lease receivables

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

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

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

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

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

Write-off of loans to customers

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

Available-for-sale financial assets

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

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

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

Renegotiated loans

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

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

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

3. Summary of Significant Accounting Policies (continued)

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

Financial guarantees

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

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

Taxation

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

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

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

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

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

Investment properties

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the income statement within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement and presented as net gains or losses from revaluation of investment properties.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Property and equipment

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

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

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

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

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

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

	Years
Office buildings	Up to 100
Hospitals and clinics	Up to 100
Furniture and fixtures	10
Computers and office equipment	5
Motor vehicles	5

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

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

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

Goodwill

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

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

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

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

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

Intangible assets

The Group's intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over four to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

3. Summary of Significant Accounting Policies (continued)

Insurance and reinsurance receivables

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

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

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

Insurance liabilities

General insurance liabilities

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

Provision for unearned premiums

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

Liability adequacy test

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

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Provisions for the risk of incurring losses on off-balance sheet commitments is estimated regularly based on the past history of actual losses incurred on these commitments.

Retirement and other employee benefit obligations

The Group provides management and employees of the Group with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group. The Group collects contributions in the size of 2% of full-time employees' salaries, of which 1% is deducted from the salaries and the other 1% – additionally paid by the Group. When an employee reaches the pension age, aggregated contributions, plus any earnings earned on the employee's behalf, are paid to the employee according to the schedule agreed with the employee. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions. Respective pension benefit obligations are recorded within other liabilities, Note 16.

Share-based payment transactions

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

Equity-settled transactions

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

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

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

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

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

Share capital

Share capital

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

Treasury shares

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

Dividends

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

Contingencies

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

Income and expense recognition

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

Fee income from providing transaction services

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

Dividend income

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

Insurance premium income

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

Insurance claims

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

Healthcare revenue

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

Revenue from sale of goods

Revenue from sale of goods comprises revenue from sale of a developed real estate property and other finished goods.

Revenue from sale of a developed real estate property is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer.

(All amounts are in Thousands of Georgian Lari)

3. Summary of Significant Accounting Policies (continued)

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

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

Functional, reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency. 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 the functional currency at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2013, 31 December 2012 and 31 December 2011 were:

	Lari to GBP	Lari to USD	Lari to EUR	Lari to UAH (10)	Lari to BYR (10,000)
31 December 2013	**2.8614**	**1.7363**	**2.3891**	**2.1723**	**1.8258**
31 December 2012	2.6653	1.6567	2.1825	2.0727	1.9331
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 year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement.

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

Hyperinflation accounting

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

In applying IAS 29, the Bank's subsidiaries in Belarus, JSC Belarusky Narodny Bank (BNB) and BNB Leasing, LLC, have used conversion factors derived from the Belarusian consumer price index (CPI), published by the State Committee on Statistics of the Republic of Belarus. The CPIs for the six-year period and respective conversion factors after Belarus previously ceased to be considered hyperinflationary on 1 January 2006 are as follows:

Year	Index, %	Conversion Factors
2006	106.6	455.0
2007	112.1	406.3
2008	113.3	358.2
2009	110.1	326.0
2010	109.9	296.3
2011	208.7	142.0
2012	121.8	116.6
2013	**116.6**	**100.0**

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

Standards and interpretations that are issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

IFRS 9 Financial Instruments

FRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. Mandatory effective date will not be before 2017, and has been tentatively decided as 2018. Classification of the Group's financial assets and liabilities may be changed as a result of the implementation. The Group will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments are not expected to be relevant to the Group.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. These amendments will not have an impact on the Group, since the Group does not apply hedge accounting.

4. Significant Accounting Judgements and Estimates

In the process of applying the Group's accounting policies, the Board of Directors and management use their judgement and make estimates in determining the amounts recognised in the consolidated financial statements. The most significant judgements and estimates are as follows:

Fair value of financial instruments

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

Measurement of fair value of investment properties and property and equipment

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

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

Allowance for impairment of loans and receivables and finance lease receivables

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

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

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

(All amounts are in Thousands of Georgian Lari)

5. Business Combination

Acquisitions in 2013

Caraps Medline LLC

On 31 December 2013 Unimed Kakheti LLC (Acquirer), a wholly-owned subsidiary of the Group, fully acquired from several individuals Caraps Medline LLC (Acquiree), a healthcare company operating in Georgia. The fair values of identifiable assets and liabilities acquired, and goodwill arising on the Acquiree as at the date of acquisition were:

	Provisional fair value recognised on acquisition
Amounts due from credit institutions	46
Loans to customers[1]	2,664
Accounts receivable[1]	22
Property and equipment	6,005
Intangible assets	4
Current income tax assets	71
Prepayments	87
Other assets	134
	9,033
Amounts due to credit institutions	2,883
Accounts payable	376
Current income tax liabilities	93
Accruals and deferred income	198
Other liabilities	226
	3,776
Total identifiable net assets	**5,257**
Goodwill arising on business combination (Note 14)	3,063
Consideration given[2]	**8,320**

The net cash outflow on acquisition was as follows:

	2013
Cash paid	**7,810**
Cash acquired with the subsidiary	**–**
Net cash outflow	**7,810**

1. No impairment for loans and receivables, gross amounts equal fair values and are expected to be fully collected.
2. Consideration comprised of GEL 510 pre-existing loan to Caraps Medline LLC and cash payments of GEL 7,810.

The Group decided to increase its presence and investment in Tbilisi healthcare market, by acquiring the clinic, thus securing a leading position in the growing healthcare sector. Management considers that the deal will have a positive impact on the value of the Group.

As the acquisition date is 31 December 2013, no revenue or profit comes from the Acquiree in the year ended 31 December 2013. If the combination had taken place at the beginning of the period the Group would have recorded GEL 553,351 and GEL 208,407 of revenue and profit respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition was the positive synergy brought into the Group's operations. None of the goodwill recognised is expected to be deductible for tax purposes.

Since Caraps Medline LLC was acquired at the reporting date, the Group had limited time to review, analyse 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 12-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. 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 and medium enterprises (SMEs) and micro businesses.
Corporate Banking (excluding Corporate Banking of BG Bank and BNB)	Principally providing loans and other credit facilities to large VIP as well as other legal entities, larger than SME and micro, finance lease facilities provided by Georgian Leasing Company LLC, as well as providing funds transfers and settlement services, trade finance services and documentary operations support, handling saving and term deposits for corporate and institutional customers.
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, outdoor or indoor advertising company, regional car dealership, hotels and restaurants management chain and other smaller investments, all designated for disposal.
Other	Comprising JSC Galt & Taggart Holding Georgia, a shell company, principally holding investments in subsidiaries of the Bank on behalf of the Bank.

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2013, 2012 or 2011.

(All amounts are in Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2013:

	Strategic			
	Corporate Banking	Retail Banking	Investment Management	Corporate centre
Net interest income (expense)	103,967	191,851	8,173	–
Net fees and commission income (expense)	27,318	54,025	530	(217)
Net insurance revenue	–	–	–	–
Net healthcare revenue	–	–	–	–
Net revenue from sale of goods	–	–	–	–
Net gains (losses) from foreign currencies	24,774	16,308	1,341	–
Other revenues	6,340	4,896	42	–
Revenue	**162,399**	**267,080**	**10,086**	**(217)**
Operating expenses	(44,202)	(120,322)	(6,858)	(3,740)
Operating income before cost of credit risk	**118,197**	**146,758**	**3,228**	**(3,957)**
Cost of credit risk	(31,054)	(29,172)	10	–
Net operating income (loss)	**87,143**	**117,586**	**3,238**	**(3,957)**
Net non-operating expenses	(2,690)	(2,200)	(255)	–
Profit (loss) before income tax (expense) benefit	**84,453**	**115,386**	**2,983**	**(3,957)**
Income tax (expense) benefit	(11,164)	(14,468)	(359)	–
Profit (loss) for the year	**73,289**	**100,918**	**2,624**	**(3,957)**
Assets and liabilities				
Total assets	3,085,647	2,689,011	18,186	5,178
Total liabilities	2,344,860	1,830,958	679,401	342
Other segment information				
Property and equipment	2,853	20,921	299	–
Intangible assets	972	5,665	77	–
Capital expenditure	**3,825**	**26,586**	**376**	**–**
Depreciation	(2,945)	(16,086)	(303)	–
Amortisation	(514)	(3,007)	(39)	–
Impairment (Reversal)	(713)	(641)	(5)	–

Synergistic				Non-Core				
Insurance	Healthcare	Affordable Housing	BG Capital	BNB	Liberty Consumer	Other	Inter-segment transactions and balances	Total
2,546	(12,404)	2,011	576	18,565	(629)	(2,925)	2,365	314,096
256	(250)	(27)	709	6,350	(45)	–	(1,753)	86,896
36,945	–	–	–	–	–	–	8,388	45,333
–	33,776	–	–	–	–	–	(11,407)	22,369
–	–	1,222	–	–	11,270	–	–	12,492
543	(5,139)	123	29	5,875	(270)	(72)	–	43,512
1,021	1,277	9,283	245	56	11	1,435	(3,850)	20,756
41,311	**17,260**	**12,612**	**1,559**	**30,846**	**10,337**	**(1,562)**	**(6,257)**	**545,454**
(16,795)	(12,434)	(2,893)	(275)	(15,384)	(6,614)	(2,305)	6,257	(225,565)
24,516	**4,826**	**9,719**	**1,284**	**15,462**	**3,723**	**(3,867)**	**–**	**319,889**
(981)	(39)	55	–	(563)	–	–	(58)	(61,802)
23,535	**4,787**	**9,774**	**1,284**	**14,899**	**3,723**	**(3,867)**	**(58)**	**258,087**
–	–	(824)	(2,252)	(399)	(3,803)	(408)	–	(12,831)
23,535	**4,787**	**8,950**	**(968)**	**14,500**	**(80)**	**(4,275)**	**(58)**	**245,256**
(3,760)	(389)	(1,142)	(1,006)	(3,514)	(623)	512	–	(35,913)
19,775	**4,398**	**7,808**	**(1,974)**	**10,986**	**(703)**	**(3,763)**	**(58)**	**209,343**
176,656	200,945	135,994	9,162	326,465	41,498	21,799	(189,572)	6,520,969
120,883	137,738	59,021	4,636	254,451	18,926	19,706	(191,007)	5,279,915
1,237	34,402	463	3	466	1,422	136	–	62,202
940	414	47	1	249	11	13	–	8,389
2,177	**34,816**	**510**	**4**	**715**	**1,433**	**149**	**–**	**70,591**
(828)	(5,191)	(73)	(9)	(1,523)	(1,034)	(50)	–	(28,042)
(406)	–	(2)	(3)	(106)	(1)	(2)	–	(4,080)
–	–	–	–	1,295	(1,107)	–	–	(1,171)

(All amounts are in Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2012:

	Strategic			
	Corporate Banking	Retail Banking	Investment management	Corporate centre
Net interest income (expense)	92,276	174,360	12,644	–
Net fees and commission income (expense)	28,701	53,563	523	(581)
Net insurance revenue	–	–	–	–
Net healthcare revenue	–	–	–	–
Net revenue from sale of goods	–	–	–	–
Net gains (losses) from foreign currencies	29,819	14,985	682	–
Other revenues	3,996	3,365	73	–
Revenue	**154,792**	**246,273**	**13,922**	**(581)**
Operating expenses	(51,323)	(109,041)	(4,665)	(2,613)
Operating income before cost of credit risk	**103,469**	**137,232**	**9,257**	**(3,194)**
Cost of credit risk	(29,490)	(12,482)	727	–
Net operating income (loss)	**73,979**	**124,750**	**9,984**	**(3,194)**
Net non-operating (expenses) income	(8,415)	(6,828)	(305)	–
Profit (loss) before income tax (expense) benefit	**65,564**	**117,922**	**9,679**	**(3,194)**
Income tax (expense) benefit	(9,936)	(16,392)	(1,339)	–
Profit (loss) for the year	**55,628**	**101,530**	**8,340**	**(3,194)**
Assets and liabilities				
Total assets	2,573,498	2,474,052	43,169	18,716
Total liabilities	1,974,163	1,708,617	605,183	2,335
Other segment information				
Property and equipment	5,886	20,593	438	–
Intangible assets	906	3,678	50	–
Capital expenditure	**6,792**	**24,271**	**488**	**–**
Depreciation	(4,160)	(14,412)	(316)	–
Amortisation	(667)	(2,643)	(37)	–
Impairment	–	(15)	–	–
Investments in associates	–	–	–	–
Share of loss of associates	–	–	–	–

Synergistic				Non-Core				
Insurance	Healthcare	Affordable Housing	BG Capital	BNB	Liberty Consumer	Other	Inter-segment transactions and balances	Total
1,825	(6,481)	147	21	12,074	(578)	(2,171)	–	284,117
(107)	–	196	456	3,809	(61)	(12)	–	86,487
29,661	–	–	–	–	–	–	4,477	34,138
–	29,768	–	–	–	–	–	(6,422)	23,346
–	–	2,936	–	–	7,729	–	–	10,665
238	(1,090)	(145)	(64)	5,306	(154)	(6)	–	49,571
1,000	257	1,442	240	68	217	1,630	(2,357)	9,931
32,617	**22,454**	**4,576**	**653**	**21,257**	**7,153**	**(559)**	**(4,302)**	**498,255**
(17,437)	(17,917)	(2,381)	(1,155)	(10,327)	(5,934)	(2,661)	4,302	(221,152)
15,180	**4,537**	**2,195**	**(502)**	**10,930**	**1,219**	**(3,220)**		**277,103**
(1,502)	(802)	(219)	–	(1,306)	(136)	–	493	(44,717)
13,678	**3,735**	**1,976**	**(502)**	**9,624**	**1,083**	**(3,220)**	**493**	**232,386**
–	440	282	–	(443)	(4,365)	–	–	(19,634)
13,678	**4,175**	**2,258**	**(502)**	**9,181**	**(3,282)**	**(3,220)**	**493**	**212,752**
(2,068)	(242)	(307)	(95)	(2,367)	(889)	435	–	(33,200)
11,610	**3,933**	**1,951**	**(597)**	**6,814**	**(4,171)**	**(2,785)**	**493**	**179,552**
186,717	170,415	105,899	22,394	185,859	37,924	21,951	(184,999)	5,655,595
151,287	113,203	42,838	16,431	139,356	12,114	17,049	(186,493)	4,596,083
3,581	25,769	203	197	340	1,616	1,563	–	60,186
441	150	20	3	186	266	1	–	5,701
4,022	**25,919**	**223**	**200**	**526**	**1,882**	**1,564**	**–**	**65,887**
(699)	(3,342)	(121)	(15)	(910)	(940)	(112)	–	(25,027)
(101)	–	–	(6)	(116)	(6)	(3)	–	(3,579)
–	–	–	–	–	(939)	–	–	(954)
–	–	–	–	–	2,441	–	–	2,441
–	–	–	–	–	(149)	–	–	(149)

(All amounts are in Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2011:

	Strategic			
	Corporate Banking	Retail Banking	Investment Management	Corporate centre
Net interest income (expense)	77,900	144,396	6,000	–
Net fees and commission income	20,559	49,512	604	–
Net insurance revenue	–	–	–	–
Net healthcare revenue	–	–	–	–
Net revenue from sale of goods	–	–	–	–
Net gains (losses) from foreign currencies	27,383	12,992	740	–
Other revenues	5,275	3,996	24	–
Revenue	**131,117**	**210,896**	**7,368**	**–**
Operating expenses	(56,282)	(107,936)	(3,967)	–
Operating income before cost of credit risk	**74,835**	**102,960**	**3,401**	**–**
Cost of credit risk	(21,553)	2,575	87	–
Net operating income (loss)	**53,282**	**105,535**	**3,488**	**–**
Net non-operating (expenses) income	(6,318)	(6,224)	(197)	–
Profit before income tax (expense) benefit from continuing operations	**46,964**	**99,311**	**3,291**	**–**
Income tax (expense) benefit	(4,896)	(9,582)	(318)	–
Profit for the period from continuing operations	**42,068**	**89,729**	**2,973**	**–**
Net loss from discontinued operations	(7,807)	(7,183)	(229)	–
Profit (loss) for the year	**34,261**	**82,546**	**2,744**	**–**
Assets and liabilities				
Total assets	2,181,069	2,166,428	40,447	6,596
Total liabilities	2,014,512	1,278,311	454,178	1,163
Other segment information				
Property and equipment	12,992	34,638	663	–
Intangible assets	1,524	4,283	77	–
Capital expenditure	**14,516**	**38,921**	**740**	**–**
Depreciation	(5,342)	(14,283)	(255)	–
Amortisation	(822)	(2,572)	(38)	–
Impairment	–	–	–	(23,394)
Investments in associates	–	–	–	–
Share of loss of associates	–	–	–	–

Synergistic				Non-Core				
Insurance	**Healthcare**	**Affordable Housing**	**BG Capital**	**BNB**	**Liberty Consumer**	**Other**	**Inter-segment transactions and balances**	**Total**
(249)	(143)	(805)	205	13,183	(1,202)	–	–	239,285
–	–	–	2,634	2,028	–	–	–	75,337
17,725	–	–	–	–	–	–	13	17,738
–	4,358	–	–	–	–	–	(1,900)	2,458
–	–	–	–	–	10,361	–	–	10,361
(779)	–	(51)	685	35,764	(293)	–	–	76,441
1,294	802	3,378	196	(15)	710	85	(3,612)	12,133
17,991	**5,017**	**2,522**	**3,720**	**50,960**	**9,576**	**85**	**(5,499)**	**433,753**
(12,382)	(3,582)	(2,029)	(4,792)	(13,321)	(11,110)	(263)	5,499	(210,165)
5,609	**1,435**	**493**	**(1,072)**	**37,639**	**(1,534)**	**(178)**	**–**	**223,588**
(1,885)	–	(32)	–	(1,398)	(335)	–	345	(22,196)
3,724	**1,435**	**461**	**(1,072)**	**36,241**	**(1,869)**	**(178)**	**345**	**201,392**
702	1,402	8	–	(18,225)	(486)	–	–	(29,338)
4,426	**2,837**	**469**	**(1,072)**	**18,016**	**(2,355)**	**(178)**	**345**	**172,054**
(702)	(43)	178	31	(6,009)	36	180	–	(21,125)
3,724	**2,794**	**647**	**(1,041)**	**12,007**	**(2,319)**	**2**	**345**	**150,929**
–	–	–	–	–	–	–	–	(15,219)
3,724	**2,794**	**647**	**(1,041)**	**12,007**	**(2,319)**	**2**	**345**	**135,710**
98,832	73,378	74,620	20,319	94,328	45,367	534	(136,657)	4,665,261
76,891	50,862	32,125	13,394	56,947	11,926	7	(137,658)	3,852,658
1,814	13,085	11,233	89	1,418	831	–	–	76,763
267	29	15	12	168	68	–	–	6,443
2,081	**13,114**	**11,248**	**101**	**1,586**	**899**	**–**	**–**	**83,206**
(679)	(208)	(71)	(120)	(1,641)	(994)	–	–	(23,593)
(48)	–	–	(17)	(161)	(3)	–	–	(3,661)
–	–	–	–	–	–	–	–	(23,394)
–	–	–	–	–	3,014	–	–	3,014
–	–	–	–	–	(487)	–	–	(487)

(All amounts are in Thousands of Georgian Lari)

7. Cash and Cash Equivalents

	2013	2012	2011
Cash on hand	**384,410**	302,956	163,001
Current accounts with central banks, excluding obligatory reserves	**132,219**	111,998	54,830
Current accounts with other credit institutions	**357,447**	204,486	304,910
Time deposits with credit institutions with maturity of up to 90 days	**179,595**	143,387	105,990
Cash and cash equivalents	**1,053,671**	**762,827**	**628,731**

As at 31 December 2013 GEL 485,740 (2012: GEL 285,947, 2011: GEL 301,166) was placed on current and time deposit accounts with internationally recognised Organisation for Economic Co-operation and Development (OECD) banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 6.92% interest per annum on these deposits (2012: up to 5.25%, 2011: up to 5.10%).

8. Amounts Due from Credit Institutions

	2013	2012	2011
Obligatory reserves with central banks	**330,319**	323,099	270,335
Time deposits with maturity of more than 90 days	**9,623**	67,284	14,318
Inter-bank loan receivables	**7,319**	6,176	4,877
Amounts due from credit institutions	**347,261**	**396,559**	**289,530**

Obligatory reserves with central banks represent amounts deposited with the NBG and National Bank of the Republic of Belarus (the NBRB). Credit institutions are required to maintain an interest-earning cash deposit (obligatory reserve) with the NBG and a non-interest-earning cash deposit (obligatory reserve) with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the statutory legislature. The Group earned nil interest on obligatory reserves with NBG for the year ended 31 December 2013, up to 0.25% annual interest for the year ended 31 December 2012 and up to 0.25% annual interest for the year ended 31 December 2011.

As at 31 December 2013, inter-bank loan receivables include GEL 4,685 (2012: GEL 4,448, 2011: GEL 4,176) placed with non-OECD banks.

9. Investment Securities Available-for-Sale

	2013	2012	2011
Ministry of Finance treasury bonds*	**391,486**	188,967	120,255
Ministry of Finance treasury bills**	**63,606**	9,648	88,657
Certificates of deposit of central banks***	**59,265**	259,402	199,142
Corporate shares	**5,266**	5,943	11,501
Corporate bonds	**–**	–	21
Investment securities available-for-sale	**519,623**	**463,960**	**419,576**

* GEL 200,065 was pledged for short-term loans from the National Bank of Georgia (2012: GEL 106,637, 2011: GEL nil).
** GEL 19,773 was pledged for short-term loans from the National Bank of Georgia (2012: GEL 7,663, 2011: GEL nil).
*** GEL 30,328 was pledged for short-term loans from the National Bank of Georgia (2012: GEL 215,603, 2011: GEL nil).

Corporate shares as at 31 December 2013 primarily comprised the remaining 19.4% investment in PJSC Bank Pershyi (formerly known as JSC BG Bank) of GEL 3,837 (2012: GEL 3,837, 2011: GEL 3,837) and a real estate company of GEL 1,145 (2012: GEL 1,145, 2011: GEL 1,145).

10. Loans to Customers

	2013	2012	2011
Commercial loans	**1,862,667**	1,664,591	1,363,058
Consumer loans	**660,220**	591,968	516,733
Micro and SME loans	**566,273**	400,553	318,566
Residential mortgage loans	**447,063**	398,114	390,997
Gold – pawn loans	**61,871**	75,445	78,785
Loans to customers, gross	**3,598,094**	**3,130,671**	**2,668,139**
Less – Allowance for loan impairment	**(120,785)**	(110,037)	(114,697)
Loans to customers, net	**3,477,309**	**3,020,634**	**2,553,442**

Allowance for loan impairment

Movements of the allowance for impairment of loans to customers by class are as follows:

	Commercial loans 2013	Consumer loans 2013	Residential mortgage loans 2013	Micro and SME loans 2013	Total 2013
At 1 January	**78,198**	**20,249**	**9,713**	**1,877**	**110,037**
Charge (reversal)	**13,671**	**27,550**	**(5,388)**	**5,666**	**41,499**
Recoveries	**4,693**	**14,363**	**4,958**	**3,465**	**27,479**
Write-offs	**(4,404)**	**(35,866)**	**(4,974)**	**(4,707)**	**(49,951)**
Interest accrued on impaired loans	**(1,153)**	**(5,509)**	**(1,216)**	**(344)**	**(8,222)**
Currency translation differences	**(56)**	**(15)**	**–**	**14**	**(57)**
At 31 December	**90,949**	**20,772**	**3,093**	**5,971**	**120,785**
Individual impairment	**76,009**	**8,221**	**2,861**	**4,708**	**91,799**
Collective impairment	**14,940**	**12,551**	**232**	**1,263**	**28,986**
	90,949	**20,772**	**3,093**	**5,971**	**120,785**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**144,020**	**14,817**	**6,792**	**10,925**	**176,554**

	Commercial loans 2012	Consumer loans 2012	Residential mortgage loans 2012	Micro and SME loans 2012	Total 2012
At 1 January	**70,106**	**28,997**	**10,027**	**5,567**	**114,697**
Charge (reversal)	27,420	13,054	(1,142)	(146)	39,186
Recoveries	7,589	11,064	7,814	3,512	29,979
Write-offs	(25,174)	(30,196)	(5,720)	(6,475)	(67,565)
Interest accrued on impaired loans	(1,901)	(2,662)	(1,266)	(581)	(6,410)
Currency translation differences	158	(8)	–	–	150
At 31 December	**78,198**	**20,249**	**9,713**	**1,877**	**110,037**
Individual impairment	66,566	11,230	3,499	1,877	83,172
Collective impairment	11,632	9,019	6,214	–	26,865
	78,198	**20,249**	**9,713**	**1,877**	**110,037**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**152,268**	**23,683**	**10,719**	**5,620**	**192,290**

(All amounts are in Thousands of Georgian Lari)

10. Loans to Customers (continued)

Individually impaired loans

	Commercial loans 2011	Consumer loans 2011	Residential mortgage loans 2011	Micro and SME loans 2011	Other 2011	Total 2011
At 1 January	**114,499**	**31,873**	**22,424**	**5,951**	**789**	**175,536**
Charge (reversal)	24,017	(1,086)	1,033	(721)	(27)	23,216
Recoveries	2,900	15,158	7,404	3,387	–	28,849
Write-offs	(23,752)	(15,459)	(7,881)	(2,639)	–	(49,731)
Disposal of subsidiary	(43,593)	–	(11,714)	(65)	(803)	(56,175)
Interest accrued on impaired loans	(3,997)	(1,390)	(1,569)	(349)	–	(7,305)
Currency translation differences	32	(99)	330	3	41	307
At 31 December	**70,106**	**28,997**	**10,027**	**5,567**	**–**	**114,697**
Individual impairment	61,852	7,304	5,173	1,841	–	76,170
Collective impairment	8,254	21,693	4,854	3,726	–	38,527
	70,106	**28,997**	**10,027**	**5,567**	**–**	**114,697**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**206,030**	**15,195**	**21,709**	**5,492**	**–**	**248,426**

Interest income accrued on loans, for which individual impairment allowances have been recognised as at 31 December 2013, comprised GEL 18,170 (2012: GEL 13,844, 2011: GEL 14,914).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory, trade receivables and third-party corporate guarantees.
- For retail lending, mortgages over residential properties, cars, gold and jewellery, and third-party corporate guarantees.

Management requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Concentration of loans to customers

As at 31 December 2013, the concentration of loans granted by the Group to the 10 largest third-party borrowers comprised GEL 610,916 accounting for 17% of the gross loan portfolio of the Group (2012: GEL 544,466 and 17% respectively, 2011: GEL 402,989 and 15% respectively). An allowance of GEL 22,740 (2012: GEL 20,702, 2011: GEL 7,033) was established against these loans.

As at 31 December 2013, the concentration of loans granted by the Group to the 10 largest third-party group of borrowers comprised GEL 912,106 accounting for 25% of the gross loan portfolio of the Group (2012: GEL 791,529 and 25% respectively, 2011: GEL 523,401 and 20% respectively). An allowance of GEL 9,345 (2012: GEL 7,118, 2011: GEL 10,980) was established against these loans.

As at 31 December 2013, 31 December 2012 and 31 December 2011 loans are principally issued within Georgia, and their distribution by industry sector was as follows:

	2013	2012	2011
Individuals	1,411,958	1,233,614	1,132,740
Trade and services	1,329,933	1,053,579	972,290
Mining	285,524	347,505	122,771
Construction and development	235,139	218,103	228,412
Transport and communication	151,731	93,028	83,289
Energy	26,983	28,296	65,360
Agriculture	86,096	94,286	8,709
Others	70,730	62,260	54,568
Loans to customers, gross	**3,598,094**	**3,130,671**	**2,668,139**
Less – allowance for loan impairment	(120,785)	(110,037)	(114,697)
Loans to customers, net	**3,477,309**	**3,020,634**	**2,553,442**

Loans have been extended to the following types of customers:

	2013	2012	2011
Private companies	2,081,192	1,783,083	1,492,124
Individuals	1,411,958	1,233,614	1,132,740
State-owned entities	104,944	113,974	43,275
Loans to customers, gross	**3,598,094**	**3,130,671**	**2,668,139**
Less – allowance for loan impairment	(120,785)	(110,037)	(114,697)
Loans to customers, net	**3,477,309**	**3,020,634**	**2,553,442**

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the years ended 31 December 2013, 31 December 2012 and 31 December 2011:

	2013			2012			2011		
	Individual impairment 2013	Collective impairment 2013	Total 2013	Individual impairment 2012	Collective impairment 2012	Total 2012	Individual impairment 2011	Collective impairment 2011	Total 2011
At 1 January	83,172	26,865	110,037	76,170	38,527	114,697	100,647	74,889	175,536
Charge for the year	19,395	22,104	41,499	27,606	11,580	39,186	20,135	3,081	23,216
Recoveries	10,828	16,651	27,479	21,296	8,683	29,979	16,563	12,286	28,849
Write-offs	(17,269)	(32,682)	(49,951)	(38,200)	(29,365)	(67,565)	(39,342)	(10,389)	(49,731)
Disposal of subsidiary	–	–		–	–	–	(16,110)	(40,065)	(56,175)
Interest accrued on impaired loans to customers	(4,273)	(3,949)	(8,222)	(3,853)	(2,557)	(6,410)	(6,094)	(1,211)	(7,305)
Currency translation differences	(54)	(3)	(57)	153	(3)	150	371	(64)	307
At 31 December	**91,799**	**28,986**	**120,785**	**83,172**	**26,865**	**110,037**	**76,170**	**38,527**	**114,697**

(All amounts are in Thousands of Georgian Lari)

11. Finance Lease Receivables

	2013	2012	2011
Minimum lease payments receivable	56,124	88,416	82,682
Less – Unearned finance lease income	(9,875)	(16,223)	(19,323)
	46,249	72,193	63,359
Less – Allowance for impairment	(643)	(507)	(440)
Finance lease receivables, net	45,606	71,686	62,919

The difference between the minimum lease payments to be received in the future and the finance lease receivables represents unearned finance income.

As at 31 December 2013, the concentration of investment in the largest lease comprised GEL 5,766 or 12% of total finance lease receivables (2012: GEL 44,641 or 62%, 2011: GEL 47,792 or 75%) and finance income received from it for the year ended 31 December 2013 comprised GEL 429 or 6% of total finance income from lease (2012: GEL 3,588 or 41%, 2011: GEL 2,173 or 33%).

Future minimum lease payments to be received after 31 December 2013, 31 December 2012 and 31 December 2011 are as follows:

	2013	2012	2011
Within one year	35,472	25,425	18,485
From one to five years	18,880	50,982	43,543
More than five years	1,772	12,009	20,654
Minimum lease payment receivables	56,124	88,416	82,682

Movements of the allowance for impairment of finance lease receivables are as follows:

	Finance lease receivables 2013	Finance lease receivables 2012	Finance lease receivables 2011
At 1 January	507	440	588
Charge	2,809	495	317
Amounts written off	(2,639)	(428)	(193)
Currency translation differences	(34)	–	(272)
At 31 December	643	507	440
Individual impairment	100	102	93
Collective impairment	543	405	347
	643	507	440
Gross amount of lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	870	1,008	155

12. Investment Properties

	2013	2012	2011
At 1 January	160,353	101,686	113,496
Additions*	20,051	62,138	16,565
Disposals	(10,748)	(15,622)	(7,889)
Disposals through sale of subsidiary	–	–	(13,654)
Net gains from revaluation of investment property	9,788	–	1,984
Transfers from (to) property and equipment and other assets**	(21,737)	12,151	(8,816)
At 31 December	157,707	160,353	101,686

* Additions comprise foreclosed properties; no cash transactions were involved.

** Comprising GEL 4,979 transfer from property and equipment (2012: GEL 12,151, 2011: GEL 2,500), GEL 14,089 transfer to other assets, inventories (2012: nil, 2011: GEL 11,316) and GEL 12,627 transfer to finance lease receivables (2012 and 2011: nil).

Investment properties are stated at fair value. The 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 date of latest revaluation is 31 December 2013. Refer to Note 28 for details on fair value measurements of investment properties.

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

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

	2013	2012	2011
Rental income	**2,911**	2,508	3,188
Direct operating expenses	**(27)**	(102)	(225)

13. Property and Equipment

The movements in property and equipment during the year ended 31 December 2013 were as follows:

	Land & buildings	**Hospitals & clinics**	**Furniture & fixtures**	**Computers & equipment**	**Motor vehicles**	**Leasehold improvements**	**Assets under construction**	**Total**
Cost or revalued amount								
31 December 2012	**210,182**	**78,572**	**112,986**	**82,731**	**9,616**	**7,839**	**37,267**	**539,193**
Additions	684	12,833	13,760	21,405	1,453	1,378	10,689	62,202
Business combination, Note 5	1	4,889	345	162	–	526	82	6,005
Disposals	(1,645)	(425)	(207)	(2,306)	(4,514)	(434)	(4)	(9,535)
Transfers	6,088	32,622	1,123	112	–	1,335	(41,280)	–
Transfers from (to) investment properties	(7,300)	–	–	40	–	–	2,055	(5,205)
Transfers to other assets	–	–	(316)	(1,187)	–	–	–	(1,503)
Revaluation	(5,620)	–	–	(289)	–	–	106	(5,803)
Effect of hyperinflation	2,864	–	207	376	48	61	72	3,628
Currency translation differences	4,385	–	1,871	519	125	66	(45)	6,921
31 December 2013	**209,639**	**128,491**	**129,769**	**101,563**	**6,728**	**10,771**	**8,942**	**595,903**
Accumulated impairment								
31 December 2012	**2,189**	**–**	**36**	**99**	**6**	**–**	**–**	**2,330**
Impairment charge	1,171	–	–	–	–	–	–	1,171
Effect of hyperinflation	364	–	6	16	1	–	–	387
Currency translation differences	(113)	–	(2)	(6)	(1)	–	–	(122)
31 December 2013	**3,611**	**–**	**40**	**109**	**6**	**–**	**–**	**3,766**
Accumulated depreciation								
31 December 2012	**4,691**	**508**	**54,406**	**36,270**	**6,386**	**3,725**	**–**	**105,986**
Depreciation charge	3,010	1,032	11,162	9,913	1,328	1,597	–	28,042
Effect of hyperinflation	364	–	6	16	1	–	–	387
Currency translation differences	(239)	–	44	81	21	32	–	(61)
Transfers to investment properties	(226)	–	–	–	–	–	–	(226)
Transfers from (to) other assets	–	–	(86)	(962)	–	–	–	(1,048)
Revaluation	(7,047)	–	–	(347)	–	–	–	(7,394)
Disposals	–	(14)	(90)	(557)	(3,419)	(138)	–	(4,218)
31 December 2013	**553**	**1,526**	**65,442**	**44,414**	**4,317**	**5,216**	**–**	**121,468**
Net book value:								
31 December 2012	**203,302**	**78,064**	**58,544**	**46,362**	**3,224**	**4,114**	**37,267**	**430,877**
31 December 2013	**205,475**	**126,965**	**64,287**	**57,040**	**2,405**	**5,555**	**8,942**	**470,669**

(All amounts are in Thousands of Georgian Lari)

13. Property and Equipment (continued)

The movements in property and equipment during the year ended 31 December 2012 were as follows:

	Land & buildings	Hospitals & Clinics	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost or revalued amount								
31 December 2011	**192,865**	**40,441**	**107,584**	**56,659**	**8,518**	**7,953**	**20,694**	**434,714**
Additions	4,518	2,836	8,756	16,458	3,230	306	24,082	60,186
Business combination	6,228	30,131	–	3,302	–	–	15,799	55,460
Disposals	(2,123)	(103)	(2,272)	(448)	(2,105)	(1,266)	–	(8,317)
Disposals through sale of subsidiaries	–	–	(6)	–	(46)	–	–	(52)
Transfers	8,327	5,266	–	–	–	864	(14,457)	–
Transfers to investment properties	(1,520)	–	–	–	–	–	(10,631)	(12,151)
Transfers from (to) other assets	9	1	(14)	6,636	4	–	1,785	8,421
Effect of hyperinflation	3,086	–	210	347	48	60	76	3,827
Currency translation differences	(1,208)	–	(1,272)	(223)	(33)	(78)	(81)	(2,895)
31 December 2012	**210,182**	**78,572**	**112,986**	**82,731**	**9,616**	**7,839**	**37,267**	**539,193**
Accumulated impairment								
31 December 2011	**2,626**	**–**	**37**	**106**	**6**	**–**	**–**	**2,775**
Impairment charge	–	–	14	59	–	–	–	73
Disposals through sale of subsidiaries	–	–	(15)	(7)	–	–	–	(22)
Effect of hyperinflation	–	–	–	123	–	–	–	123
Currency translation differences	(437)	–	–	(182)	–	–	–	(619)
31 December 2012	**2,189**	**–**	**36**	**99**	**6**	**–**	**–**	**2,330**
Accumulated depreciation								
31 December 2011	**1,720**	**26**	**43,476**	**28,913**	**6,464**	**3,230**	**–**	**83,829**
Depreciation charge	2,545	481	11,288	7,536	1,768	1,409	–	25,027
Effect of hyperinflation	450	–	8	22	1	–	–	481
Currency translation differences	(25)	–	19	71	9	52	–	126
Transfers to other assets	–	–	(8)	(122)	–	–	–	(130)
Disposals	1	1	(373)	(150)	(1,834)	(966)	–	(3,321)
Disposals through sale of subsidiaries	–	–	(4)	–	(22)	–	–	(26)
31 December 2012	**4,691**	**508**	**54,406**	**36,270**	**6,386**	**3,725**	**–**	**105,986**
Net book value:								
31 December 2011	**188,519**	**40,415**	**64,071**	**27,640**	**2,048**	**4,723**	**20,694**	**348,110**
31 December 2012	**203,302**	**78,064**	**58,544**	**46,362**	**3,224**	**4,114**	**37,267**	**430,877**

The movements in property and equipment during the year ended 31 December 2011 were as follows:

	Land & buildings	Hospitals & Clinics	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost or revalued amount								
31 December 2010	**145,936**	**4,580**	**100,559**	**42,183**	**8,341**	**7,530**	**42,766**	**351,895**
Additions	6,599	4,097	11,440	8,467	1,803	328	44,029	76,763
Business combination	462	25,593	1,958	9,461	260	–	646	38,380
Disposals	(3,474)	–	(293)	(944)	(716)	(743)	(686)	(6,856)
Disposals through sale of subsidiaries	(5,735)	–	(1,876)	(1,192)	(649)	(175)	(751)	(10,378)
Transfers	54,767	6,171	252	32	(122)	1,428	(62,528)	–
Transfers to investment properties	(2,500)	–	–	–	–	–	–	(2,500)
Revaluation	(1,561)	–	–	–	–	–	–	(1,561)
Effect of hyperinflation	9,474	–	439	703	153	99	172	11,040
Currency translation differences	(11,103)	–	(4,895)	(2,051)	(552)	(514)	(2,954)	(22,069)
31 December 2011	**192,865**	**40,441**	**107,584**	**56,659**	**8,518**	**7,953**	**20,694**	**434,714**

	Land & buildings	Hospitals & Clinics	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Accumulated impairment								
31 December 2010	**2,222**	**–**	**262**	**118**	**14**	**–**	**–**	**2,616**
Disposals through sale of subsidiaries	(1,307)	–	(261)	(49)	(13)	–	–	(1,630)
Effect of hyperinflation	2,186	–	34	81	7	–	–	2,308
Currency translation differences	(475)	–	2	(44)	(2)	–	–	(519)
31 December 2011	**2,626**	**–**	**37**	**106**	**6**	**–**	**–**	**2,775**
Accumulated depreciation								
31 December 2010	**1,559**	**70**	**32,192**	**21,901**	**5,187**	**2,518**	**–**	**63,427**
Depreciation charge	2,178	26	11,626	6,447	1,951	1,365	–	23,593
Effect of hyperinflation	35	–	112	286	55	9	–	497
Currency translation differences	(1,594)	–	(47)	1,080	(20)	(86)	–	(667)
Disposals	(13)	(70)	(283)	(694)	(673)	(546)	–	(2,279)
Disposals through sale of subsidiaries	(100)	–	(124)	(107)	(36)	(30)	–	(397)
Revaluation	(345)	–	–	–	–	–	–	(345)
31 December 2011	**1,720**	**26**	**43,476**	**28,913**	**6,464**	**3,230**	**–**	**83,829**
Net book value:								
31 December 2010	**142,155**	**4,510**	**68,105**	**20,164**	**3,140**	**5,012**	**42,766**	**285,852**
31 December 2011	**188,519**	**40,415**	**64,071**	**27,640**	**2,048**	**4,723**	**20,694**	**348,110**

Premises of the Group are subject to revaluation on a regular basis. The date of latest revaluation is 31 December 2013. As at 31 December 2012 and 31 December 2011 the Group analysed market prices for its premises and concluded that the market price of premises was not materially different from their carrying value. Refer to Note 28 for details on fair value measurements of the Group's premises.

If the office buildings and service centres had been measured using the cost model, the carrying amounts of the office buildings and service centres as at 31 December 2013, 31 December 2012 and 31 December 2011 would have been as follows:

	2013	2012	2011
Cost	**146,104**	141,023	123,710
Accumulated depreciation and impairment	**(14,023)**	(10,888)	(7,916)
Net carrying amount	**132,081**	**130,135**	**115,794**

14. Goodwill

Movements in goodwill during the years ended 31 December 2013, 31 December 2012 and 31 December 2011, were as follows:

	2013	2012	2011
Cost			
1 January	**74,107**	**74,645**	**142,284**
Business combinations, Note 5	**3,063**	482	377
Disposals through sale of subsidiaries	**–**	(1,020)	(68,016)
At 31 December	**77,170**	**74,107**	**74,645**
Accumulated impairment			
1 January	**28,450**	**28,450**	**73,072**
Impairment charge	**–**	655	23,394
Disposals through sale of subsidiaries	**–**	(655)	(68,016)
At 31 December	**28,450**	**28,450**	**28,450**
Net book value:			
1 January	**45,657**	**46,195**	**69,212**
At 31 December	**48,720**	**45,657**	**46,195**

(All amounts are in Thousands of Georgian Lari)

14. Goodwill (continued)

The impairment charge of goodwill in 2012 was in respect of JSC Intertour – GEL 655. The impairment charge of goodwill in 2011 was in respect of JSC Belarusky Narodny Bank – GEL 23,394. The main reason for impairment was insufficient future operating cash flows expected to be received per the forecasts of the respective cash-generating units.

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to five individual cash-generating units (CGUs), which are also reportable segments, for impairment testing: Corporate Banking, Retail Banking, Insurance, Healthcare and Liberty Consumer.

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

	2013	2012	2011
Insurance	**19,601**	19,601	19,119
Retail Banking	**12,433**	12,433	12,433
Corporate Banking	**9,965**	9,965	9,965
Liberty Consumer	**3,439**	3,438	4,458
Healthcare	**3,282**	220	220
Total	**48,720**	**45,657**	**46,195**

Key assumptions used in value in use calculations

The recoverable amounts of the cash generating units have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering from one- to three-year periods. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets. For the purposes of the impairment test, a 0% permanent growth rate has been assumed when assessing the future operating cash flows of the cash-generating units.

The following rates were used by the Group for corporate banking and Retail Banking:

	Corporate Banking			Retail Banking		
	2013 %	2012 %	2011 %	**2013 %**	2012 %	2011 %
Discount rate	**8.50%**	8.50%	8.50%	**8.50%**	8.50%	8.50%

The following rates were used by the Group for Insurance and Healthcare and Liberty Consumer:

	Insurance and Healthcare			Liberty Consumer		
	2013 %	2012 %	2011 %	**2013 %**	2012 %	2011 %
Discount rate	**13.30%**	13.30%	13.30%	**14.50%**	14.50%	14.50%

Discount rates

Discount rates reflect management's estimate of Return of Capital Employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using Weighted Average Cost of Capital (WACC).

The Lari exchange rate towards other currencies has been assumed to be stable during the forecast period, with a steady immaterial depreciation, based on the prior years' trends, in line with macroeconomic expectations.

A moderate, stable 6% growth of real GDP was assumed, based on the Government's and IMF forecasts.

No change in market share was assumed.

For the Insurance CGU, the following additional assumptions were made over the first three-year period of the business plan:
- Further synergies between Insurance and Healthcare businesses will increase cost efficiency and further improve operating leverage.
- Termination of the state-funded insurance programmes through private insurance companies (partly in April 2014 and partly in July 2014).
- Growth of other (non-state-funded) insurance business lines through an increased market demand and economic growth.

For the Retail and Corporate Banking CGUs, the following additional assumptions were made:
- Stable, business-as-usual growth of loans and deposits, in line with the 6% real GDP growth.
- No material changes in Cost to Income structure or ratio.
- Stable, business-as-usual growth of trade finance and other documentary businesses, in line with the 6% real GDP growth.
- Further expansion of the Express Banking businesses bringing more stable margins to Retail Banking.

Sensitivity to changes in assumptions

Management believes that reasonable possible changes in key assumptions used to determine the recoverable amount of segments will not result in an impairment of goodwill.

15. Taxation

The corporate income tax (expense) benefit comprises:

	2013	2012	2011
Current income tax (expense) benefit	**(17,284)**	(23,469)	4,985
Deferred income tax expense	**(18,629)**	(9,731)	(2,923)
Income tax (expense) benefit	**(35,913)**	**(33,200)**	**2,062**
Income tax expense attributable to continuing operations	**(35,913)**	**(33,200)**	**(21,125)**
Income tax benefit attributable to a discontinued operation	**–**	**–**	**23,187**
Deferred income tax (expense) benefit from continuing operations in other comprehensive income (loss)	**(1,095)**	690	5,581
Deferred income tax benefit from discontinued operations in other comprehensive income (loss)	**–**	–	625
Total deferred income tax (expense) benefit recognised in other comprehensive income (loss)	**(1,095)**	**690**	**6,206**

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2013, 2012 and 2011 was as follows:

	2013	2012	2011
Currency translation differences	**(873)**	654	6,175
Net losses on investment securities available-for-sale	**1**	36	124
Revaluation of buildings	**(223)**	–	(93)
Income tax (expense) benefit to other comprehensive income	**(1,095)**	**690**	**6,206**

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which ranges from 15% to 24% (2012: from 15% to 23%, 2011: from 15% to 23%).

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2013, 31 December 2012 and 31 December 2011 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2013	2012	2011
Profit before income tax (expense) benefit from continuing operations	**245,256**	212,752	172,054
Net loss before income tax benefit from discontinued operations	**–**	–	(38,406)
Profit before income tax (expense) benefit	**245,256**	**212,752**	**133,648**
Average tax rate	**15%**	15%	15%
Theoretical income tax expense at average tax rate	**(36,788)**	**(31,913)**	**(20,047)**
Tax at the domestic rates applicable to profits in each country	**(1,155)**	(1,417)	(2,050)
Correction of prior year declarations	**2,402**	–	8,408
Loss on disposal of subsidiary*	**–**	–	18,593
Non-deductible expenses	**(486)**	–	(3,509)
Other	**114**	130	667
Income tax (expense) benefit	**(35,913)**	**(33,200)**	**2,062**
Income tax expense attributable to continuing operations	**(35,913)**	(33,200)	(21,125)
Income tax benefit attributable to a discontinued operation	**–**	–	23,187
Income tax (expense) benefit	**(35,913)**	**(33,200)**	**2,062**

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

(All amounts are in Thousands of Georgian Lari)

15. Taxation (continued)

Applicable taxes in Georgia and Belarus include corporate income tax (profit tax), individuals' withholding taxes, property tax and value-added tax, among others. However, regulations are often unclear or nonexistent and few precedents have been established. This creates tax risks in Georgia and Belarus, substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretative issues.

Deferred tax assets and liabilities as at 31 December 2013, 31 December 2012 and 31 December 2011 and their movements for the respective years are as follows:

		Origination and reversal of temporary differences		
	2010	In the income statement	In other comprehensive income	Effect of business combination
Tax effect of deductible temporary differences:				
Amounts due to credit institutions	–	1,264	–	–
Investment securities: available-for-sale	1,210	(988)	522	–
Loans to customers	10,569	(345)	(36)	–
Investment properties	1,953	(12)	(1,604)	–
Insurance premiums receivables	1,697	–	–	–
Allowances for impairment and provisions for other losses	2,064	–	(722)	–
Tax losses carried forward	4,472	3,714	5,181	–
Property and equipment	2,569	(33)	(358)	–
Other assets and liabilities	3,092	1,055	(229)	–
Deferred tax assets	**27,626**	**4,655**	**2,754**	**–**
Tax effect of taxable temporary differences:				
Amounts due to credit institutions	1,773	(8)	–	–
Amounts due to customers	1,467	(7)	(8)	–
Loans to customers	10,565	(1,452)	(91)	–
Other insurance liabilities and pension fund obligations	7	218	179	–
Property and equipment	19,422	6,474	(957)	1,167
Investment properties	568	1,697	(1,650)	–
Intangible assets	3,776	814	(175)	–
Other assets and liabilities	2,771	(158)	(750)	–
Deferred tax liabilities	**40,349**	**7,578**	**(3,452)**	**1,167**
Net deferred tax assets (liabilities)	**(12,723)**	**(2,923)**	**6,206**	**(1,167)**

		Origination and reversal of temporary differences				Origination and reversal of temporary differences		
Disposal of subsidiary	2011	In the income statement	In other comprehensive income	Disposal of subsidiary	2012	In the income statement	In other comprehensive income	**2013**
–	1,264	(1,209)	–	–	55	1,125	–	**1,180**
(7)	737	(749)	19	–	7	1,188	1	**1,196**
(10,188)	–	–	–	–	–	–	–	**–**
(337)	–	–	–	–	–	2,479	–	**2,479**
–	1,697	(373)	–	–	1,324	(438)	–	**886**
–	1,342	(283)	–	–	1,059	(604)	–	**455**
(1,035)	12,332	(2,417)	(746)	(24)	9,145	(974)	620	**8,791**
–	2,178	(1,238)	(7)	–	933	9	–	**942**
(231)	3,687	(629)	(302)	(26)	2,730	439	–	**3,169**
(11,798)	**23,237**	**(6,898)**	**(1,036)**	**(50)**	**15,253**	**3,224**	**621**	**19,098**
(31)	1,734	(1,662)	–	–	72	28	(48)	**52**
(942)	510	(510)	–	–	–	1,325	–	**1,325**
–	9,022	(14)	–	–	9,008	12,831	–	**21,839**
–	404	446	–	–	850	106	–	**956**
57	26,163	3,309	310	–	29,782	1,650	1,179	**32,611**
–	615	(152)	(2)	–	461	1,711	(2,170)	**2**
(99)	4,316	571	–	–	4,887	688	–	**5,575**
–	1,863	845	(654)	(29)	2,025	3,514	2,755	**8,294**
(1,015)	**44,627**	**2,833**	**(346)**	**(29)**	**47,085**	**21,853**	**1,716**	**70,654**
(10,783)	**(21,390)**	**(9,731)**	**(690)**	**(21)**	**(31,832)**	**(18,629)**	**(1,095)**	**(51,556)**

(All amounts are in Thousands of Georgian Lari)

16. Other Assets and Other Liabilities

Other assets comprise:

	2013	2012	2011
Inventory	**88,209**	44,380	27,903
Insurance premiums receivable	**64,988**	68,947	24,052
Foreclosed assets*	**43,924**	900	169
Derivative financial assets	**39,431**	36,784	36,823
Accounts receivable	**32,474**	25,559	24,126
Operating tax assets	**15,626**	9,883	4,683
Receivables from documentary operations	**14,562**	2,990	1,026
Settlements on operations	**10,461**	10,970	1,972
Reinsurance assets	**9,471**	8,279	8,859
Receivables from money transfers	**4,054**	4,619	4,937
Assets purchased for finance lease purposes	**3,649**	1,654	1,877
Trading securities owned	**1,149**	971	1,115
Receivables from sale of assets	**692**	872	663
Operating lease receivables	**489**	547	309
Other	**18,449**	18,100	6,556
	347,628	**235,455**	**145,070**
Less – Allowance for impairment of other assets	**(18,289)**	(14,375)	(7,502)
Other assets	**329,339**	**221,080**	**137,568**

* Foreclosed assets represent movable repossessed assets. The increase in 2013 is attributable to premature termination of one large finance lease receivable that in 2012 and 2011 made up 62% and 75% of total finance lease receivables respectively – see Note 11.

Inventories mainly comprise GEL 65,019 Affordable Housing apartments under construction (2012: GEL 32,458, 2011: GEL 19,151), GEL 4,622 medical supplies held by the Healthcare segment (2012: GEL 5,698, 2011: GEL 2,368) and GEL 8,183 of Winery business-related materials and finished goods (2012: GEL 5,618, 2011: GEL 5,971).

Other liabilities comprise:

	2013	2012	2011
Insurance contracts liabilities	**73,719**	79,839	35,009
Deferred income and other accruals*	**61,275**	32,167	8,915
Accruals for employee compensation	**20,830**	14,093	40,825
Accounts payable	**11,220**	14,350	35,025
Pension benefit obligations	**9,540**	8,758	6,353
Other insurance liabilities	**7,360**	10,861	8,534
Creditors	**7,855**	9,911	1,751
Derivative financial liabilities	**1,513**	4,867	15,856
Other taxes payable	**1,505**	1,930	2,777
Dividends payable	**511**	393	359
Other	**11,250**	8,042	3,058
Other liabilities	**206,578**	**185,211**	**158,462**

* Deferred income and other accruals as at 31 December 2013 is primarily made up of deferred income on sale of developed real estate properties of JSC m2 Real Estate – GEL 53,639 or 87.5% (2012: GEL 23,432 or 72.8%, 2011: GEL 7,129 or 80.0%).

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2013		
	Notional amount	**Fair value**	
		Asset	**Liability**
Interest rate contracts			
Forwards and swaps – foreign	**97,566**	**–**	**1,453**
Foreign exchange contracts			
Forwards and swaps – domestic	**66,640**	**332**	**50**
Forwards and swaps – foreign	**100,465**	**39,076**	**10**
Equity/Commodity contracts			
Call options – foreign	**1,166**	**23**	**–**
Total derivative assets/liabilities	**265,837**	**39,431**	**1,513**

	2012			2011		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Interest rate contracts						
Forwards and swaps – foreign	148,137	–	4,783	263,309	–	9,542
Foreign exchange contracts						
Forwards and swaps – domestic	41,693	542	–	97,781	275	196
Forwards and swaps – foreign	120,493	35,976	84	255,348	35,850	5,791
Options – foreign	–	–	–	–	–	–
Equity/Commodity contracts						
Call options – foreign	3,313	266	–	5,010	698	–
Embedded derivatives from investment deposits	–	–	–	–	–	327
Total derivative assets/liabilities	**313,636**	**36,784**	**4,867**	**621,448**	**36,823**	**15,856**

17. Amounts Due to Customers

The amounts due to customers include the following:

	2013	2012	2011
Time deposits	**1,593,171**	1,325,544	908,577
Current accounts	**1,514,038**	1,297,367	1,645,507
Promissory notes issued	**10,523**	70,114	181,138
Amounts due to customers	**3,117,732**	**2,693,025**	**2,735,222**
Held as security against letters of credit and guarantees (Note 19)	**53,903**	**31,439**	**24,353**

As at 31 December 2013, 31 December 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 rates. The average effective maturity of the notes was 12 months (2012: 3 months, 2011: 5 months).

At 31 December 2013, amounts due to customers of GEL 436,694 (14%) were due to the 10 largest customers (2012: GEL 462,815 (17%), 2011: GEL 580,710 (21%).

(All amounts are in Thousands of Georgian Lari)

17. Amounts Due to Customers (continued)

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

	2013	2012	2011
Private enterprises	**1,392,577**	1,300,487	1,290,908
Individuals	**1,554,781**	1,238,135	1,056,852
State and budget organisations	**170,374**	154,403	387,462
Amounts due to customers	**3,117,732**	**2,693,025**	**2,735,222**

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

	2013	2012	2011
Individuals	**1,554,781**	1,238,135	1,056,852
Trade and services	**720,184**	712,794	655,551
State and budget organisations	**170,374**	154,403	387,462
Energy	**250,945**	241,807	239,797
Construction and development	**216,355**	145,919	175,906
Mining and processing	**36,663**	59,129	131,734
Transport and communication	**24,956**	35,235	36,871
Agriculture	**4,329**	4,502	14,844
Other	**139,145**	101,101	36,205
Amounts due to customers	**3,117,732**	**2,693,025**	**2,735,222**

18. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2013	2012	2011
Eurobonds	**728,117**	420,849	95,954
Borrowings from international credit institutions	**504,943**	596,700	449,220
Short-term loans from the National Bank of Georgia	**250,138**	310,178	–
Time deposits and inter-bank loans	**221,267**	113,222	42,837
Correspondent accounts	**12,921**	7,969	15,331
Subtotal	**1,717,386**	**1,448,918**	**603,342**
Non-convertible subordinated debt	**168,710**	208,244	234,012
Convertible subordinated debt	**–**	–	83,818
Total subordinated debt	**168,710**	**208,244**	**317,830**
Amounts due to credit institutions	**1,886,096**	**1,657,162**	**921,172**

During the year ended 31 December 2013 the Group received short-term funds from Georgian banks in different currencies.

During the year ended 31 December 2013 the Group paid up to 6.23% on US Dollar borrowings from international credit institutions (2012: up to 9.65%, 2011: up to 9.65%). During the year ended 31 December 2013 the Group paid up to 11.33% on US Dollar subordinated debt (2012, 2011: up to 11.65%).

Some long-term borrowings from international credit institutions are received upon certain conditions (the Lender Covenants) that the Group maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2013, 31 December 2012 and 31 December 2011 the Group complied with all the Lender Covenants of the borrowings from international credit institutions.

On 6 November 2013, the Bank completed the issuance of its US$150 million (GEL 251 million) 7.75% notes due 2017, consolidated and forming a single series with the US$250 million 7.75% notes due 2017 issued on 5 July 2012. The Regulation S/Rule 144A 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 105.249% of their principal amount. J.P. Morgan Securities plc and Merrill Lynch International acted as Joint Lead Managers for the notes. Dechert LLP and Baker & McKenzie LLP acted as legal advisers 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 have been admitted to trading on the London Stock Exchange's Regulated Market.

On 5 July 2012 the Bank completed the issuance of its US$250 million (GEL 411 million) 7.75% notes due 2017. The Regulation S/Rule 144A five-year senior unsecured notes carry a 7.75% coupon rate per annum, paid semi-annually, and were issued and sold at closing at a price of 99.491% of 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 advisers 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 have been admitted to trading on the London Stock Exchange's Regulated Market.

19. Commitments and Contingencies

Legal

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

Financial commitments and contingencies

As at 31 December 2013, 31 December 2012 and 31 December 2011 the Group's financial commitments and contingencies comprised the following:

	2013	2012	2011
Credit-related commitments			
Guarantees issued	**478,247**	502,511	463,393
Undrawn loan facilities	**147,273**	140,003	120,339
Letters of credit	**55,608**	100,023	70,224
	681,128	**742,537**	**653,956**
Operating lease commitments			
Not later than one year	**7,978**	5,666	5,040
Later than one year but not later than five years	**12,844**	11,722	9,979
Later than five years	**1,693**	2,172	3,122
	22,515	**19,560**	**18,141**
Capital expenditure commitments	**11,463**	**3,069**	**47,918**
Less – Cash held as security against letters of credit and guarantees (Note 17)	**(53,903)**	(31,439)	(24,353)
Less – Provisions	**(481)**	(683)	(386)
Less – Receivables related to letters of credit	**–**	–	(515)
Financial commitments and contingencies, net	**660,722**	**733,044**	**694,761**

As at 31 December 2013 capital expenditure represented the commitment for purchase of property and capital repairs of GEL 8,796 and software and other intangible assets of GEL 2,667. As at 31 December 2012, capital expenditure represented the commitment for purchase of property and capital repairs of GEL 948 and software and other intangible assets of GEL 2,121. As at 31 December 2011, capital expenditure represented the commitment for purchase of property and capital repairs of GEL 41,119 and software and other intangible assets of GEL 6,799.

(All amounts are in Thousands of Georgian Lari)

20. Equity

Share capital

As at 31 December 2013, issued share capital comprised 35,909,383 common shares, of which 35,909,383 were fully paid (31 December 2012: 35,909,383 issued share capital, of which 35,909,383 were fully paid, 31 December 2011: 43,308,125 authorised common shares, of which 32,877,547 were issued and fully paid). Each share has a nominal value of one (1) British Penny (31 December 2012: one (1) British Penny, 31 December 2011: one (1) Georgian Lari). Shares issued and outstanding as at 31 December 2013 are described below:

	Number of shares Ordinary	Amount of shares Ordinary
31 December 2010	**31,344,860**	**31,345**
Increase in share capital arising from issuance of GDRs	1,500,000	1,500
Increase in share capital arising from share-based payments	32,687	33
31 December 2011	**32,877,547**	**32,878**
Issue of share capital*	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	–	14
31 December 2012	**35,909,383**	**957**
Effect of translation of equity components to presentation currency	–	71
31 December 2013	**35,909,383**	**1,028**

* Conversion of US$49,903 convertible borrowings by EBRD and IFC into the Bank's 3,635,006 shares.
** 603,170 is the number of JSC Bank of Georgia shares that were not converted into Bank of Georgia Holdings Plc shares during the Tender Offer.
*** GEL 943 is the nominal value of 35,909,383 Bank of Georgia Holdings PLC shares translated in GEL with the share conversion date official exchange rate.

On 24 February 2012, EBRD and the International Finance Centre (IFC) utilised the convertibility feature and converted US$49,903 of their loans to the Bank into the Bank's shares (Note 18). The 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%) were converted into 35,909,383 shares of BGH (Note 1).

The share capital of the Group was paid by the shareholders in Georgian Lari. They were entitled to dividends in Georgian Lari before the Tender Offer and are entitled to dividends in British Pounds Sterling after the Tender Offer.

Capital Reduction

Following the Admission (Note 1), the Directors of BGH undertook a reduction of capital in order to create distributable reserves for BGH. The original difference between the nominal value of BGH's shares and the fair value of the Bank's shares was credited to the merger reserve created in connection with the Tender Offer. It was the intention of BGH's Directors that the maximum amount of distributable reserves should be created and therefore any merger reserve created in connection with the Tender Offer was capitalised 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 capitalisation of the merger reserve.

BGH shares had an original (Tender Offer) nominal value of £6.00 per share. Following the reduction of capital the nominal value of BGH shares was reduced to £0.01. Reduction of the capital created a new reserve on the statement of financial position of BGH (comprising the reduction of the original nominal value from £6.00 to £0.01 per share plus aggregate nominal amount of all of the Class A shares which were cancelled). The 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 outstanding at the time became distributable to the shareholders and was fully reclassified to retained earnings.

Treasury shares

The number of treasury shares held by the Group as at 31 December 2013 comprised 1,973,376 (31 December 2012: 2,576,747, 31 December 2011: 3,146,140).

Treasury shares of GEL 56 as at 31 December 2013 comprise the Group's shares owned by the Group (31 December 2012: GEL 69, 31 December 2011: GEL 1,208).

During the year ended 31 December 2011, an increase in share capital of GEL 1,500 was made for future share-based compensation purposes. As a result, treasury shares amounting to GEL 1,938 as at 31 December 2011 were kept by the Group's custodian – Abacus Corporate Trustee Limited, acting as the trustee of the Group. Starting 20 February 2012, all shares of the Bank kept by Abacus Corporate Trustee Limited were converted into the Group's shares.

During the year ended 31 December 2011, 32,687 ordinary shares of GEL 33 par value and additional paid-in capital of GEL 620 have been vested as compensation to top management.

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 51,235 interim dividends was received by shareholders on 19 June 2013.

On 7 June 2012, the Directors of Bank of Georgia Holdings PLC declared an interim dividend for 2012 of 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, the Annual General Meeting of shareholders' of JSC Bank of Georgia declared 2011 dividends comprising Georgian Lari 0.3 per share, based on 2010 audited financial results. The declaration is effective from 1 July 2011. Payment of the total GEL 9,169 dividends was received by shareholders on 18 July 2011.

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 office buildings and service centres and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

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

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

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

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

Foreign currency translation reserve

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

Movements in other reserves during the years ended 31 December 2013, 31 December 2012 and 31 December 2011 are presented in the statements of other comprehensive income.

Earnings per share

	2013	2012	2011
Basic earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	**201,490**	174,437	132,531
Profit for the year from continuing operations attributable to ordinary shareholders of the Group	**201,490**	174,437	147,750
Weighted average number of ordinary shares outstanding during the year	**33,983,014**	33,405,181	29,866,366
Basic earnings per share	**5.9291**	5.2218	4.4375
Basic earnings per share from continuing operations	**5.9291**	5.2218	4.9470
Dilution effect			
Interest expenses on convertible debt instruments, net of tax	**–**	1,116	8,029
Number of dilutive potential ordinary shares	**–**	526,381	3,635,006
Diluted earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	**201,490**	175,553	140,560
Profit for the year from continuing operations attributable to ordinary shareholders of the Group	**201,490**	175,553	155,779
Weighted average number of diluted ordinary shares outstanding during the year	**33,983,014**	33,931,562	33,501,372
Diluted earnings per share	**5.9291**	5.1737	4.1957
Diluted earnings per share from continuing operations	**5.9291**	5.1737	4.6499

During the year ended 31 December 2011 dilutive potential ordinary shares were accounted for by convertible loans granted by EBRD and IFC.

On 24 February 2012 the Bank converted certain part of its loans taken from EBRD and IFC into 3,635,006 ordinary shares of the Bank. 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.

(All amounts are in Thousands of Georgian Lari)

21. Net Fee and Commission Income

	2013	2012	2011
Settlements operations	**76,542**	69,208	62,015
Guarantees and letters of credit	**23,781**	26,846	17,528
Cash operations	**9,049**	8,826	9,048
Currency conversion operations	**2,653**	1,802	1,507
Brokerage service fees	**803**	911	1,033
Advisory	**272**	–	1,668
Other	**2,006**	1,685	742
Fee and commission income	**115,106**	**109,278**	**93,541**
Settlements operations	**(18,893)**	(15,234)	(12,255)
Guarantees and letters of credit	**(3,968)**	(4,046)	(1,856)
Cash operations	**(2,707)**	(1,510)	(2,424)
Insurance brokerage service fees	**(871)**	(910)	(543)
Currency conversion operations	**(95)**	(73)	(550)
Other	**(1,676)**	(1,018)	(576)
Fee and commission expense	**(28,210)**	**(22,791)**	**(18,204)**
Net fee and commission income	**86,896**	**86,487**	**75,337**

22. Net Insurance Revenue

Net insurance premiums earned, net insurance claims incurred and respective net insurance revenue for the years ended 31 December 2013, 31 December 2012 and 31 December 2011 comprised:

	2013	2012	2011
Life insurance contracts premium written	**3,610**	4,069	2,200
General insurance contracts premium written	**135,635**	113,810	54,241
Total premiums written	**139,245**	**117,879**	**56,441**
Gross change in life provision	**881**	(98)	82
Gross change in general insurance contracts unearned premium provision	**2,913**	(14,931)	135
Total gross premiums earned on insurance contracts	**143,039**	**102,850**	**56,658**
Reinsurers’ share of life insurance contracts premium written	**(505)**	(658)	(148)
Reinsurers’ share of general insurance contracts premium written	**(14,660)**	(8,925)	(9,750)
Reinsurers’ share of change in life provision	**5**	(65)	(183)
Reinsurers’ share of change in general insurance contracts unearned premium provision	**2,114**	(2,026)	(181)
Total reinsurers’ share of gross earned premiums on insurance contracts	**(13,046)**	**(11,674)**	**(10,262)**
Net insurance premiums earned	**129,993**	**91,176**	**46,396**
Life insurance claims paid	**(954)**	(539)	(465)
General insurance claims paid	**(86,425)**	(60,323)	(30,850)
Total insurance claims paid	**(87,379)**	**(60,862)**	**(31,315)**
Reinsurers’ share of life insurance claims paid	**441**	84	428
Reinsurers’ share of general insurance claims paid	**1,036**	1,282	1,186
Gross change in total reserves for claims	**2,325**	1,742	774
Reinsurers’ share of change in total reserves for claims	**(1,083)**	716	269
Net insurance claims incurred	**(84,660)**	**(57,038)**	**(28,658)**
Net insurance revenue	**45,333**	**34,138**	**17,738**

23. Net Healthcare Revenue

	2013	2012	2011
Revenue from free flow (non-insured retail individuals)	**17,677**	21,133	1,847
Revenue from insurance companies	**22,418**	16,937	1,507
Revenue from Government programmes	**19,810**	13,184	217
Other revenue from medical services	**108**	3,122	2,129
Healthcare revenue	**60,013**	**54,376**	**5,700**
Direct salary expenses	**(20,182)**	(21,980)	(1,938)
Direct materials	**(13,569)**	(6,799)	(632)
Expenses on medical service providers	**(1,885)**	(2,081)	(474)
Other direct expenses	**(2,008)**	(170)	(198)
Cost of healthcare services	**(37,644)**	**(31,030)**	**(3,242)**
Net healthcare revenue	**22,369**	**23,346**	**2,458**

24. Salaries and Other Employee Benefits, and General and Administrative Expenses

	2013	2012	2011
Salaries and bonuses	**(132,758)**	(121,046)	(113,214)
Social security costs	**(2,307)**	(1,510)	(1,408)
Salaries and other employee benefits	**(135,065)**	**(122,556)**	**(114,622)**

The average number of staff employed by the Group for the years ended 31 December 2013, 31 December 2012 and 31 December 2011 comprised:

	2013	2012	2011
The Bank	**3,686**	3,523	3,229
Insurance segment	**589**	459	324
BNB segment	**362**	290	338
Other	**807**	750	758
Average number of staff employed, excluding Healthcare*	**5,444**	**5,022**	**4,649**
Healthcare segment	**6,046**	4,288	955
Average total number of staff employed	**11,490**	**9,310**	**5,604**

* Salary expenses on staff employed in the Healthcare segment are included in cost of Healthcare services.

Salaries and bonuses include GEL 18,702, GEL 17,122 and GEL 12,092 of the Equity Compensation Plan costs for the years ended 31 December 2013, 31 December 2012 and 31 December 2011, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 26 and 30).

	2013	2012	2011
Occupancy and rent	**(9,783)**	(9,644)	(9,396)
Marketing and advertising	**(9,467)**	(9,644)	(15,614)
Legal and other professional services	**(8,399)**	(10,055)	(6,077)
Repairs and maintenance	**(7,482)**	(11,164)	(6,330)
Office supplies	**(6,119)**	(8,358)	(3,350)
Communication	**(4,750)**	(4,601)	(4,679)
Operating taxes	**(4,567)**	(4,824)	(4,464)
Corporate hospitality and entertainment	**(3,233)**	(2,669)	(1,889)
Security	**(2,149)**	(1,964)	(2,061)
Travel expenses	**(1,441)**	(1,407)	(2,412)
Personnel training and recruitment	**(1,212)**	(854)	(733)
Insurance	**(520)**	(419)	(232)
Banking services	**(196)**	(62)	(874)
Penalties	**(75)**	(318)	(329)
Other	**(971)**	(1,058)	(3,502)
General and administrative expenses	**(60,364)**	**(67,041)**	**(61,942)**

(All amounts are in Thousands of Georgian Lari)

24. Salaries and Other Employee Benefits, and General and Administrative Expenses (continued)

Auditors' remuneration is included within legal and other professional services expenses above and comprises:

	Audit/ Review	Audit Related	Other Services	Total
2013				
Audit of the Group's annual accounts	**1,430**	**–**	**–**	**1,430**
Review of the Group's interim accounts	**226**	**–**	**–**	**226**
Other assurance services**	**58**	**40**	**260***	**358**
Total auditors' remuneration	**1,714**	**40**	**260**	**2,014**
2012				
Audit of the Group's annual accounts	1,445	–	–	1,445
Review of the Group's interim accounts	302	–	–	302
Other assurance services**	–	50	424*	474
Total auditors' remuneration	**1,747**	**50**	**424**	**2,221**
2011				
Audit of the Group's annual accounts	1,445	–	–	1,445
Review of the Group's interim accounts	657	–	–	657
Other assurance services**	–	12	573	585
Total auditors' remuneration	**2,102**	**12**	**573**	**2,687**

* Includes GEL 260 fee paid for the new US$150 million Eurobonds transaction (2012: GEL 270 fee paid for new US$250 million Eurobonds transaction) (Note 18), included in the carrying amount of the notes.

** Comprises services in relation to statutory and regulatory filings as well as services related to BGH's premium listing (Note 1) and Eurobonds transactions (Note 18).

The figures shown in the above table relate to fees paid to Ernst & Young LLP and its associates. Fees paid to other auditors not associated with Ernst & Young LLP in respect of the audit of the Group's subsidiaries were GEL 145 (2012: GEL 85, 2011: GEL 215) and in respect of other services of the Group's subsidiaries were GEL 634 (2012: GEL 225, 2011: GEL 26).

25. Net Non-operating Expenses

Net non-operating expenses for the year ended 31 December 2012 include GEL 6,191 in relation to the costs of BGH's admission to the premium listing segment of the Official List of the UK Listing Authority and GEL 8,413 in relation to impairment of several investments. Net non-operating expenses for the year ended 31 December 2011 include GEL 23,394 in relation to impairment of goodwill on JSC Belarusky Narodny Bank and GEL 6,431 loss on early repurchase of the Bank's Eurobonds. All other amounts included in this caption for the years ended 31 December 2013, 31 December 2012 and 31 December 2011 are not individually significant, and therefore have not been disclosed separately.

26. Share-based Payments

Executives' Equity Compensation Plan

Abacus Corporate Trustee Limited (the Trustee) acts as the trustee of the Group's Executive's Equity Compensation Plan (EECP).

In February 2011 the Bank's Supervisory Board resolved to award 143,500 ordinary shares in the form of GDRs to the members of the Management Board and 133,000 ordinary shares in the form of GDRs to the Group's 24 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 24 executives are subject to three-year vesting, with a continuous employment being the only vesting condition for both awards. The Group considers 21 February 2011 as the grant date. The Group estimates that the fair value of the shares awarded on 21 February 2011 was Georgian Lari 35.86 per share. Additionally, during 2011, the Bank awarded 32,687 ordinary shares of the Bank to its Supervisory Board members. These shares were granted on a quarterly basis, with a total fixed value of Georgian Lari 739,039, resulting in a weighted average price of each ordinary share of Georgian Lari 22.61 per share.

In March 2012 the Bank's Supervisory Board resolved to award 220,000 ordinary shares of BGH to the members of the Management Board and 199,358 ordinary shares of BGH to the Group's 28 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 28 executives are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 6 March 2012 as the grant date. The Group estimates that the fair value of the shares awarded on 6 March 2012 was Georgian Lari 26.07 per share.

In February 2013 the Bank's Supervisory Board resolved to award 200,000 ordinary shares of BGH to the members of the Management Board and 137,850 ordinary shares of BGH to the Group's 28 executives. Shares awarded to the Management Board are subject to two-year vesting, while shares awarded to the other 28 executives are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 15 February 2013 as the grant date. The Group estimates that the fair value of the shares awarded on 15 February 2013 was Georgian Lari 35.56 per share.

Additionally, in February 2013 CEO of the Bank and the deputies signed new three-year fixed-contingent share-based compensation agreements with the Bank for the total of 840,000 ordinary shares of BGH. The total amount of shares fixed to each executive will be awarded in three equal instalments during the three consecutive years starting January 2014, of which each award will be subject to a four-year vesting period. The Group considers 18 February 2013 as the grant date for the awards. The Group estimates that the fair value of the shares on 18 February 2013 was Georgian Lari 35.45.

The Bank grants share compensation to its mid-management employees too. In February 2013, in March 2012 and in February 2011, the Supervisory Board of the Bank resolved to award 68,850, 42,600 and 24,397 ordinary shares to its mid-management employees, respectively. All these awards are subject to three-year vesting, with a continuous employment being the only vesting condition for all awards. The Group considers 15 February 2013, 6 March 2012 and 21 February 2011 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 15 February 2013, 6 March 2012 and 21 February 2011 were Georgian Lari 35.56, 26.07 and 35.86 per share, respectively.

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 35.48 per share in year ended 31 December 2013 (31 December 2012: Georgian Lari 26.07 per share, 31 December 2011: Georgian Lari 32.94 per share).

The Group's total share-based payment expenses for the year ended 31 December 2013 comprised GEL 18,702 (31 December 2012: GEL 17,122, 31 December 2011: GEL 12,092) and are included in "salaries and other employee benefits" as "salaries and bonuses".

Below is the summary of the share-based payments-related data:

	2013	2012	2011
Total number of equity instruments awarded*	**1,246,700**	461,958	333,584
– Among them, to top management and Board of Directors**	**300,000**	34,000	52,687
Weighted average value at grant date, per share (GEL in full amount)	**35.48**	26.07	32.94
Value at grant date, total (GEL)	**44,238**	**12,044**	**10,989**
Total expense recognised during the year (GEL)	**(18,702)**	**(17,122)**	**(12,092)**

* 2013 award includes fixed-contingent share-based compensation of 840,000 ordinary shares per new employment agreements of CEO and deputies, signed in February 2013 for the subsequent consecutive three-year period.
** Supervisory Board of the Bank for 2011.

During 2013 total gain from exercise of the share options by BGH Directors amounted to GEL 2,558 (GEL 4,435 in 2012).

27. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

Audit Committee

The Audit Committee is an independent body and is directly monitored by the Board. It has the overall responsibility for developing and implementation of overall risk assessment and risk mitigation strategies, principles, frameworks, policies and limits. The Audit Committee is responsible for the fundamental risk issues and manages and monitors relevant risk decisions covering, but not limited to: macroeconomic and environmental risks, general control environment, manual and application controls, risks of intentionally or unintentional misstatements, risk of fraud or misappropriation of assets, information security, anti-money laundering, information technology risks, etc.

27. Risk Management (continued)

Management Board

The Management Board has the responsibility to monitor and manage entire risk process within the Group, on a regular basis, by assigning tasks, creating different executive committees, designing and setting up risk management policies and procedures as well as respective guidelines and controlling their implementation and performance of relevant departments and committees.

Bank Asset and Liability Management Committee

The Bank's Asset and Liability Management Committee (ALCO) is the core risk management body. It is responsible for managing the Bank's assets and liabilities, all risks associated with them as well as overall financial structure of the Group. It is also primarily responsible for the funding, capital adequacy risk, liquidity risks and market risks of the Bank.

Internal audit

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is Base Case (forecast under normal business conditions) and the other two are Troubled and Distressed Scenarios, which are worse and the worst case scenarios, respectively, that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board and the head of each business division. The reports include aggregate credit exposures and their limits, exceptions to those limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Management Board receives a comprehensive Credit Risk report and ALCO report once a month. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. While these are intended for hedging, these do not qualify for hedge accounting.

The Group actively uses collateral to reduce its credit risks, see below for more detail.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or these counterparties represent related parties to each other, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to the total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio of both, financial assets as well as financial liabilities. Identified concentrations of credit risks or liquidity/repayment risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision.

The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group through internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Group's credit rating system.

		Neither past due nor impaired				
31 December 2013	Notes	**High grade**	**Standard grade**	**Sub-standard grade**	**Past due or individually impaired**	**Total**
Amounts due from credit institutions	8	**347,261**	**–**	**–**	**–**	**347,261**
Debt investment securities available-for-sale	9	**514,357**	**–**	**–**	**–**	**514,357**
Loans to customers:	10					
Commercial loans		**1,469,635**	**114,248**	**110,791**	**167,993**	**1,862,667**
Consumer loans		**607,344**	**19,849**	**1,475**	**31,552**	**660,220**
Micro and SME loans		**486,536**	**63,501**	**4,198**	**12,038**	**566,273**
Residential mortgage loans		**411,291**	**21,359**	**2,303**	**12,110**	**447,063**
Gold – pawn loans		**61,871**	**–**	**–**	**–**	**61,871**
		3,036,677	**218,957**	**118,767**	**223,693**	**3,598,094**
Finance lease receivables	11	**30,325**	**4,020**	**1,918**	**9,986**	**46,249**
Total		**3,928,620**	**222,977**	**120,685**	**233,679**	**4,505,961**

(All amounts are in Thousands of Georgian Lari)

27. Risk Management (continued)

31 December 2012	Notes	Neither past due nor impaired High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	396,559	–	–	–	396,559
Debt investment securities available-for-sale	9	458,017	–	–	–	458,017
Loans to customers:	10					
Commercial loans		1,359,856	62,048	73,681	169,006	1,664,591
Consumer loans		530,333	18,945	1,181	41,509	591,968
Micro and SME loans		376,940	14,789	1,842	6,982	400,553
Residential mortgage loans		358,742	18,692	3,305	17,375	398,114
Gold – pawn loans		75,445	–	–	–	75,445
		2,701,316	**114,474**	**80,009**	**234,872**	**3,130,671**
Finance lease receivables	11	19,153	1,770	440	50,830	72,193
Total		**3,575,045**	**116,244**	**80,449**	**285,702**	**4,057,440**

31 December 2011	Notes	Neither past due nor impaired High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	289,530	–	–	–	289,530
Debt investment securities available-for-sale	9	408,075	–	–	–	408,075
Loans to customers:	10					
Commercial loans		1,030,959	75,009	37,888	219,202	1,363,058
Consumer loans		469,374	13,517	1,224	32,618	516,733
Residential mortgage loans		344,593	12,872	1,477	32,055	390,997
Micro and SME loans		306,124	5,031	1,494	5,917	318,566
Gold – pawn loans		78,785	–	–	–	78,785
		2,229,835	**106,429**	**42,083**	**289,792**	**2,668,139**
Finance lease receivables	11	57,647	4,222	913	577	63,359
Total		**2,985,087**	**110,651**	**42,996**	**290,369**	**3,429,103**

Past due loans to customers, analysed by age below, include those that are past due by not more than a few days. These loans are not impaired.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. Attributable risk ratings are assessed and updated regularly.

The credit risk assessment policy for non-past due and individually non-impaired financial assets has been determined by the Group as follows:

- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due no more than 30 days is assessed as a financial asset with High Grade.
- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 30 but less than 60 days is assessed as a financial asset with Standard Grade.
- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 60 days or borrower of this loan has at least an additional borrowing in past due more than 60 days as at reporting date is assessed as a financial asset with Sub-Standard Grade.

Aging analysis of past due but not impaired loans per class of financial assets

31 December 2013	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total**
Loans to customers:					
Commercial loans	**9,118**	**2,422**	**847**	**11,584**	**23,971**
Consumer loans	**16,735**	**–**	**–**	**1**	**16,736**
Residential mortgage loans	**4,201**	**547**	**288**	**283**	**5,319**
Micro and SME loans	**843**	**18**	**200**	**52**	**1,113**
Finance lease receivables	**5,839**	**3,081**	**88**	**108**	**9,116**
Total	**36,736**	**6,068**	**1,423**	**12,028**	**56,255**

31 December 2012	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	17,803	13	5	5	17,826
Commercial loans	634	1,534	7,891	6,679	16,738
Residential mortgage loans	3,453	1,605	650	948	6,656
Micro and SME loans	1,099	–	–	263	1,362
Finance lease receivables	4,144	535	44,850	293	49,822
Total	**27,133**	**3,687**	**53,396**	**8,188**	**92,404**

31 December 2011	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	17,399	24	–	–	17,423
Commercial loans	2,124	48	–	11,000	13,172
Residential mortgage loans	8,345	645	56	1,300	10,346
Micro and SME loans	425	–	–	–	425
Finance lease receivables	332	47	–	43	422
Total	**28,625**	**764**	**56**	**12,343**	**41,788**

See Notes 10 and 11 for more detailed information with respect to the allowance for impairment of loans to customers and finance lease receivables, respectively.

The Group specifically monitors performance of the loans with overdue payments in arrears for more than 90 days. The gross carrying value (i.e. carrying value before deducting any allowance for impairment) of such loans comprised GEL 123,975, GEL 82,524 and GEL 87,836 as at 31 December 2013, 31 December 2012 and 31 December 2011, respectively.

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2013	2012	2011
Loans to customers:			
Commercial loans	**44,559**	86,910	108,730
Micro and SME loans	**5,147**	2,754	1,814
Residential mortgage loans	**9,418**	7,312	7,453
Consumer loans	**1,031**	1,573	960
Finance lease receivables	**1,533**	1,170	–
Total	**61,688**	**99,719**	**118,957**

(All amounts are in Thousands of Georgian Lari)

27. Risk Management (continued)

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by any number of days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. Loans are considered to be individually impaired if they are past due by more than only a few days or there are clear indications that the borrower already faces business, financial or other type of problems that hinder its/his/her ability to serve contractual obligations with the Group. Impairment for all such loans is assessed individually, rather than applying standard collective impairment rates based on just prior history of losses of the Group.

Individually assessed allowances

For loan loss allowance determination purposes the Group considers all individually significant loans and classifies them between being individually impaired or not impaired. The allowance for those individually significant loans that are determined to be individually impaired, see definition above, is determined through individual assessment of the associated credit risk by assigning a proper credit rating. The allowances for non-significant loans that are determined to be individually impaired, see definition above, are also individually assessed. The allowance for losses for individually significant loans that are determined not to be individually impaired is assessed through the collective assessment approach described below. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, the timing of the expected cash flows and past history of the debt service of the borrower. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for all loans (including but not limited to credit cards, residential mortgages, and unsecured consumer lending, commercial lending, etc.), both, significant as well as non-significant, where there is not yet objective evidence of individual impairment, see definition above. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes into account the impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year, depending on a product. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision is made in a similar manner as for loans.

The geographical concentration of the Group's assets and liabilities is set out below:

	2013			
	Georgia	OECD	CIS and other foreign countries	Total
Assets:				
Cash and cash equivalents	480,651	485,740	87,280	1,053,671
Amounts due from credit institutions	293,163	3,638	50,460	347,261
Investment securities available-for-sale	515,774	–	3,849	519,623
Loans to customers	3,287,532	–	189,777	3,477,309
Finance lease receivables	36,075	–	9,531	45,606
All other assets	996,491	4,556	76,452	1,077,499
	5,609,686	493,934	417,349	6,520,969
Liabilities:				
Amounts due to customers	2,165,890	243,697	708,145	3,117,732
Amounts due to credit institutions	359,374	1,433,294	93,428	1,886,096
All other liabilities	258,963	7,532	9,592	276,087
	2,784,227	1,684,523	811,165	5,279,915
Net balance sheet position	2,825,459	(1,190,589)	(393,816)	1,241,054

	2012				2011			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	430,523	285,947	46,357	762,827	312,697	301,166	14,868	628,731
Amounts due from credit institutions	340,177	23,659	32,723	396,559	282,353	387	6,790	289,530
Investment securities available-for-sale	460,102	–	3,858	463,960	419,555	–	21	419,576
Loans to customers	2,908,489	–	112,145	3,020,634	2,508,545	–	44,897	2,553,442
Finance lease receivables	66,487	–	5,199	71,686	59,479	–	3,440	62,919
All other assets	810,823	16,123	112,983	939,929	691,047	253	19,763	711,063
	5,016,601	**325,729**	**313,265**	**5,655,595**	**4,273,676**	**301,806**	**89,779**	**4,665,261**
Liabilities:								
Amounts due to customers	1,854,152	265,838	573,035	2,693,025	2,514,541	108,337	112,344	2,735,222
Amounts due to credit institutions	393,345	1,180,989	82,828	1,657,162	42,761	788,067	90,344	921,172
All other liabilities	225,640	12,500	7,756	245,896	193,198	–	3,066	196,264
	2,473,137	**1,459,327**	**663,619**	**4,596,083**	**2,750,500**	**896,404**	**205,754**	**3,852,658**
Net balance sheet position	**2,543,464**	**(1,133,598)**	**(350,354)**	**1,059,512**	**1,523,176**	**(594,598)**	**(115,975)**	**812,603**

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Group primarily on a stand-alone Bank basis, based on certain liquidity ratios established by the NBG. As at 31 December 2013, 31 December 2012 and 31 December 2011 these ratios were as follows:

	2013, %	2012, %	2011, %
Average Liquidity ratio	**42.3%**	40.0%	36.9%
Maximum Liquidity ratio	**48.1%**	49.1%	47.2%
Minimum Liquidity ratio	**35.5%**	31.1%	29.6%

The average Liquidity ratio is calculated on a stand-alone basis for JSC Bank of Georgia as the annual average (arithmetic mean) of daily Liquidity ratios, computed as the ratio of liquid assets to liabilities determined by the National Bank of Georgia as follows:

Liquid assets comprise cash, cash equivalents and other assets that are immediately convertible into cash. Those assets include investment securities issued by the Georgian Government plus Certificates of Deposit issued by NBG and do not include amounts due from credit institutions, other than inter-bank deposits, and/or debt securities of Governments and Central Banks of non-OECD countries, amounts in nostro accounts which are under lien, impaired inter-bank deposits and amounts on obligatory reserve with NBG that are pledged due to borrowings from NBG.

Liabilities comprise the total balance sheet liabilities, less amounts due to credit institutions that are to be exercised or settled later than six months from the reporting date, plus off-balance sheet commitments with residual maturity subsequent to the reporting date of less than six months. Off-balance sheet commitments include all commitments except financial guarantees and letters of credit that are fully collateralised by cash covers in the Bank, and commitments due to dealing operations with foreign currencies. The maximum and minimum Liquidity ratios are taken from historical data of the appropriate reporting years.

The Group also matches the maturity of financial assets and financial liabilities and imposes a maximum limit on negative gaps compared to the Bank's stand-alone total regulatory capital calculated per NBG regulation. The ratios are assessed and monitored monthly and compared against set limits. In the case of deviations, amendment strategies/actions are discussed and approved by the Asset Liability Committee (ALCO).

(All amounts are in Thousands of Georgian Lari)

27. Risk Management (continued)

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

Financial liabilities As at 31 December 2013	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Amounts due to customers	**828,938**	**2,061,435**	**476,370**	**32,099**	**3,398,842**
Amounts due to credit institutions	**465,422**	**234,104**	**1,394,410**	**141,842**	**2,235,778**
Other liabilities	**20,866**	**70,713**	**14,242**	**3**	**105,824**
Total undiscounted financial liabilities	**1,315,226**	**2,366,252**	**1,885,022**	**173,944**	**5,740,444**

Financial liabilities As at 31 December 2012	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to customers	1,759,707	638,935	371,691	33,548	2,803,881
Amounts due to credit institutions	465,376	221,460	1,108,551	177,950	1,973,337
Other liabilities	28,359	76,982	9,356	–	114,697
Total undiscounted financial liabilities	**2,253,442**	**937,377**	**1,489,598**	**211,498**	**4,891,915**

Financial liabilities As at 31 December 2011	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to customers	1,908,942	654,219	236,243	13,543	2,812,947
Amounts due to credit institutions	195,670	122,709	499,370	434,038	1,251,787
Other liabilities	26,926	53,099	19,783	–	99,808
Total undiscounted financial liabilities	**2,131,538**	**830,027**	**755,396**	**447,581**	**4,164,542**

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

	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
31 December 2013	**272,385**	**244,987**	**181,044**	**16,690**	**715,106**
31 December 2012	337,465	177,907	236,948	12,846	765,166
31 December 2011	335,550	267,617	103,870	12,978	720,015

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

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 17).

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using sensitivity analysis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Group's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2013. During the year ended 31 December 2013, year ended 31 December 2012 and year ended 31 December 2011, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	**Increase in basis points 2013**	**Sensitivity of net interest income 2013**	**Sensitivity of other comprehensive income 2013**
GEL	**0.14%**	**34**	**–**
USD	**0.01%**	**29**	**–**

Currency	**Decrease in basis points 2013**	**Sensitivity of net interest income 2013**	**Sensitivity of other comprehensive income 2013**
GEL	**0.14%**	**(34)**	**–**
USD	**0.01%**	**(29)**	**–**

Currency	Increase in basis points 2012	Sensitivity of net interest income 2012	Sensitivity of other comprehensive income 2012
GEL	0.17%	(40)	–
USD	0.01%	(49)	–

Currency	Decrease in basis points 2012	Sensitivity of net interest income 2012	Sensitivity of other comprehensive income 2012
GEL	0.17%	40	–
USD	0.01%	49	–

Currency	Increase in basis points 2011	Sensitivity of net interest income 2011	Sensitivity of other comprehensive income 2011
EUR	0.42%	101	–
USD	0.02%	51	–

Currency	Decrease in basis points 2011	Sensitivity of net interest income 2011	Sensitivity of other comprehensive income 2011
EUR	-0.42%	(101)	–
USD	-0.02%	(51)	–

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored daily.

(All amounts are in Thousands of Georgian Lari)

27. Risk Management (continued)

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2013 on its trading and non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the last month. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended the year ended 31 December 2013, year ended 31 December 2012 and year ended 31 December 2011, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	**Change in currency rate in %**	**Effect on profit before tax**	Change in currency rate in %	Effect on profit before tax	Change in currency rate in %	Effect on profit before tax
	2013		2012		2011	
EUR	**1.9%**	**(7)**	2.6%	(2,079)	4.4%	2,392
GBP	**2.1%**	**–**	1.8%	(19)	3.2%	13
USD	**0.8%**	**(1)**	0.8%	(2,331)	1.3%	1,927

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar or whatever reasons.

The Group calculates effect of early repayments by calculating the weighted average rates of early repayments across each loan product individually, applying these historical rates to the outstanding carrying amount of respective products as at the reporting date and multiplying by the weighted average effective annual interest rates for each product. The model does not make a distinction between different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties on the Group's income.

The estimated effect of prepayment risk on profit and equity of the Group for the years ended 31 December 2013, 31 December 2012 and 31 December 2011 is as follows:

	Effect on net interest income
2013	**(5,944)**
2012	(3,971)
2011	(5,416)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Operating environment

Most of the Group's business in concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity markets). However, over the last few years the Georgian Government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

28. Fair Value Measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy:

31 December 2013	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Total investment properties	**–**	**–**	**157,707**	**157,707**
Land	**–**	**–**	**26,749**	**26,749**
Residential properties	**–**	**–**	**42,954**	**42,954**
Non-residential properties	**–**	**–**	**88,004**	**88,004**
Investment securities available-for-sale	**–**	**514,401**	**5,222**	**519,623**
Other assets – derivative financial assets	**–**	**39,431**	**–**	**39,431**
Other assets – trading securities owned	**1,149**	**–**	**–**	**1,149**
Total revalued property	**–**	**–**	**205,475**	**205,475**
Office buildings	**–**	**–**	**85,400**	**85,400**
Service centres	**–**	**–**	**120,075**	**120,075**
Assets for which fair values are disclosed				
Cash and cash equivalents		**–**	**1,053,671**	**1,053,671**
Amounts due from credit institutions		**–**	**347,261**	**347,261**
Loans to customers		**–**	**3,592,147**	**3,592,147**
Finance lease receivables		**–**	**45,606**	**45,606**
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	**–**	**1,513**	**–**	**1,513**
Liabilities for which fair values are disclosed				
Amounts due to customers	**–**	**–**	**3,159,482**	**3,159,482**
Amounts due to credit institutions	**–**	**–**	**1,886,096**	**1,886,096**

(All amounts are in Thousands of Georgian Lari)

28. Fair Value Measurements (continued)

31 December 2012	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Investment properties	–	–	160,353	160,353
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
Revalued property	–	–	203,302	203,302
Assets for which fair values are disclosed				
Cash and cash equivalents	–	–	762,827	762,827
Amounts due from credit institutions	–	–	396,559	396,559
Loans to customers	–	–	2,995,632	2,995,632
Finance lease receivables	–	–	71,686	71,686
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	–	4,867	–	4,867
Liabilities for which fair values are disclosed				
Amounts due to customers	–	–	2,707,231	2,707,231
Amounts due to credit institutions	–	–	1,657,162	1,657,162

31 December 2011	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Investment properties	–	–	101,686	101,686
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
Revalued property	–	–	188,519	188,519
Assets for which fair values are disclosed				
Cash and cash equivalents	–	–	628,731	628,731
Amounts due from credit institutions	–	–	289,530	289,530
Loans to customers	–	–	2,546,648	2,546,648
Finance lease receivables	–	–	62,919	62,919
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	5,925	9,931	–	15,856
Liabilities for which fair values are disclosed				
Amounts due to customers	–	–	2,758,210	2,758,210
Amounts due to credit institutions	–	–	921,172	921,172

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

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

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

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

	31 December 2010	Sale of AFS securities	At 31 December 2011	Sale of AFS securities	Transfers from level 2	At 31 December 2012	Sale of AFS securities	**At 31 December 2013**
Level 3 financial assets								
Equity investment securities available-for-sale	5,409	(1,375)	4,034	(1,983)	3,837	5,888	(666)	**5,222**

The transfer of GEL 3,837 in 2012 was the 19.4% stake in PJSC Bank Pershyi.

Movements in Level 3 non-financial assets measured at fair value
All investment properties and revalued properties of property and equipment are of Level 3. Reconciliations of their opening and closing amounts are provided in Notes 12 and 13 respectively.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions
The following table shows the impact on the fair value of Level 3 instruments of using reasonably possible alternative assumptions:

	Carrying Amount	**Effect of reasonably possible alternative assumptions**	Carrying Amount	Effect of reasonably possible alternative assumptions	Carrying Amount	Effect of reasonably possible alternative assumptions
	2013		2012		2011	
Level 3 financial assets						
Equity investment securities available-for-sale	**5,222**	**+/- 786**	5,888	+/- 886	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 price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

(All amounts are in Thousands of Georgian Lari)

28. Fair Value Measurements (continued)

Description of significant unobservable inputs to valuations of non-financial assets

The following tables show descriptions of significant unobservable inputs to Level 3 valuations of investment properties and revalued properties and equipment:

	2013	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**157,707**						
Land	**26,749**	Market approach	Price per square metre	1–870 (361)	Square metres, land	57–100,000 (24,501)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 2,510
Residential properties	**42,954**						
	40,394	Market approach	Price per square metre	5–13,750 (2,135)	Square metres, land	257–20,000 (679)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 3,885
					Square metres, building	9–2,892 (860)	
	2,560	Cost approach	Replacement cost per square metre	12–703 (307)	Square metres, building	45–2,475 (828)	10% increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value by 150
			Developers' profit margin	15.0%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by 15
			Land price per square metre	1–574 (58)	Square metres, land	54–8,808 (3,536)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 97
Non-residential properties	**88,004**						
	53,429	Market approach	Price per square metre	17–5,545 (2,128)	Square metres, land	59–18,487 (1,241)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 4,771
					Square metres, building	8–4,337 (2,147)	
	34,575	Cost approach	Replacement cost per square metre	8–3,403 (1,634)	Square metres, building	12–14,520 (5,092)	10% increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value by 2,086
			Developers' profit margin	15.0%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by 209
			Land price per square metre	1–459 (84)	Square metres, land	171–230,398 (87,094)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 1,240

	2013	Valuation technique	Significant unobservable inputs	Range (weighted average)	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Property and equipment	**205,475**						
Office buildings	**85,400**						
	51,060	Market approach	Price per square metre	689–5,975 (4,812)	Square metres, land Square metres, building	57–100,000 (24,501) 40–4,787 (2,869)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 4,454
	34,340	Cost approach	Replacement cost per square metre	574–990 (845)	Square metres, building	557–8,594 (7,003)	10% increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value by 859
			Developers' profit margin	15.0%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by 106
			Land price per square metre	16–3,033 (2,413)	Square metres, land	877–13,900 (12,849)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 3,951
Service centres	**120,075**						
	98,859	Market approach	Price per square metre	40–14,681 (4,336)	Square metres, land Square metres, building	113–3,164 (490) 15–1,589 (585)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 8,785
	21,216	Cost approach	Replacement cost per square metre	72–2,079 (1,149)	Square metres, building	149–6,461 (1,789)	10% increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value by 1,439
			Developers' profit margin	15.0%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by 141
			Land price per square metre	4–582 (202)	Square metres, land	124–34,672 (11,102)	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by 477

(All amounts are in Thousands of Georgian Lari)

28. Fair Value Measurements (continued)

Financial instruments overview

Set out below is an overview of all financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2013, 31 December 2012 and 31 December 2011:

	31 December 2013		
	Loans and receivables	**Available-for-sale**	**Fair value through profit or loss**
Financial assets			
Loans to customers	**3,477,309**	**–**	**–**
Finance lease receivables	**45,606**	**–**	**–**
Trade and other receivables (in other assets)	**52,171**	**–**	**–**
Equity instruments	**–**	**5,266**	**58**
Debt instruments	**–**	**514,357**	**1,091**
Foreign currency derivative financial instruments	**–**	**–**	**39,431**
Commodity options	**–**	**–**	**–**
Total:	**3,575,086**	**519,623**	**40,580**
Financial liabilities			
Amounts owed to customers	**3,117,732**	**–**	**–**
Amounts owed to credit institutions	**1,886,096**	**–**	**–**
Trade and other payables (in other liabilities)	**49,287**	**–**	**–**
Foreign currency derivative financial instruments	**–**	**–**	**60**
Interest rate swaps	**–**	**–**	**1,453**
Total	**5,053,115**	**–**	**1,513**

	31 December 2012			31 December 2011		
	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	3,020,632	–	–	2,553,442	–	–
Finance lease receivables	71,686	–	–	62,919	–	–
Trade and other receivables (in other assets)	100,893	–	–	30,206	–	–
Equity instruments	–	5,943	211	–	–	49
Debt instruments	–	458,018	760	–	431,098	1,066
Foreign currency derivative financial instruments	–	–	36,518	–	–	36,125
Commodity options	–	–	266	–	–	698
Total	**3,193,211**	**463,961**	**37,755**	**2,646,567**	**431,098**	**37,938**
Financial liabilities						
Amounts owed to customers	2,693,023	–	–	2,735,222	–	–
Amounts owed to credit institutions	1,657,163	–	–	921,172	–	–
Trade and other payables (in other liabilities)	59,980	–	–	86,495	–	–
Foreign currency derivative financial instruments	–	–	84	–	–	5,987
Interest rate swaps	–	–	4,783	–	–	9,542
Total	**4,410,166**	**–**	**4,867**	**3,742,889**	**–**	**15,529**

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

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

	Carrying value 2013	Fair value 2013	Unrecognised gain (loss) 2013
Financial assets			
Cash and cash equivalents	**1,053,671**	**1,053,671**	**–**
Amounts due from credit institutions	**347,261**	**347,261**	**–**
Loans to customers	**3,477,309**	**3,592,147**	**114,838**
Finance lease receivables	**45,606**	**45,606**	**–**
Financial liabilities			
Amounts due to customers	**3,117,732**	**3,159,482**	**(41,750)**
Amounts due to credit institutions	**1,886,096**	**1,886,096**	**–**
Total unrecognised change in unrealised fair value			**73,088**

	Carrying value 2012	Fair value 2012	Unrecognised loss 2012	Carrying value 2011	Fair value 2011	Unrecognised loss 2011
Financial assets						
Cash and cash equivalents	762,827	762,827	–	628,731	628,731	–
Amounts due from credit institutions	396,559	396,559	–	289,530	289,530	–
Loans to customers	3,020,634	2,995,632	(25,002)	2,553,442	2,546,648	(6,794)
Finance lease receivables	71,686	71,686	–	62,919	62,919	–
Financial liabilities						
Amounts due to customers	2,693,025	2,707,231	(14,206)	2,735,222	2,758,210	(22,988)
Amounts due to credit institutions	1,657,162	1,657,162	–	921,172	921,172	–
Total unrecognised change in unrealised fair value			**(39,208)**			**(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.

(All amounts are in Thousands of Georgian Lari)

29. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 27 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2013							
	On Demand	**≤ 3 Months**	**≤ 6 Months**	**≤ 1 Year**	**≤ 3 Years**	**≤ 5 Years**	**> 5 Years**	**Total**
Financial assets								
Cash and cash equivalents	**884,728**	**168,943**	**–**	**–**	**–**	**–**	**–**	**1,053,671**
Amounts due from credit institutions	**289,926**	**7,438**	**7,296**	**29,199**	**8,953**	**4,449**	**–**	**347,261**
Investment securities available-for-sale	**256,140**	**254,202**	**3,518**	**1,697**	**2,915**	**823**	**328**	**519,623**
Loans to customers	**–**	**657,902**	**402,551**	**696,307**	**1,051,950**	**427,194**	**241,405**	**3,477,309**
Finance lease receivables	**–**	**16,056**	**5,713**	**10,184**	**10,885**	**1,923**	**845**	**45,606**
Total	**1,430,794**	**1,104,541**	**419,078**	**737,387**	**1,074,703**	**434,389**	**242,578**	**5,443,470**
Financial liabilities								
Amounts due to customers	**284,099**	**525,229**	**460,880**	**1,542,062**	**251,091**	**43,228**	**11,143**	**3,117,732**
Amounts due to credit institutions	**13,620**	**428,667**	**61,071**	**163,161**	**366,920**	**762,953**	**89,704**	**1,886,096**
Total	**297,719**	**953,896**	**521,951**	**1,705,223**	**618,011**	**806,181**	**100,847**	**5,003,828**
Net	**1,133,075**	**150,645**	**(102,873)**	**(967,836)**	**456,692**	**(371,792)**	**141,731**	**439,642**

	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**

	2011							
	On Demand	≤ 3 Months	≤ 6 Months	≤ 1 Year	≤ 3 Years	≤ 5 Years	> 5 Years	Total
Financial assets								
Cash and cash equivalents	526,706	102,025	–	–	–	–	–	628,731
Amounts due from credit institutions	268,100	277	858	8,213	7,191	–	4,891	289,530
Investment securities available-for-sale	23,607	146,809	114,167	55,596	65,893	13,500	4	419,576
Loans to customers	2,245	498,214	258,886	471,732	723,420	345,412	253,533	2,553,442
Finance lease receivables	218	5,196	3,990	7,363	20,871	12,667	12,614	62,919
Total	**820,876**	**752,521**	**377,901**	**542,904**	**817,375**	**371,579**	**271,042**	**3,954,198**
Financial liabilities								
Amounts due to customers	643,135	401,885	267,389	1,224,352	185,878	6,416	6,167	2,735,222
Amounts due to credit institutions	26,936	158,368	27,832	51,985	181,448	118,839	355,764	921,172
Total	**670,071**	**560,253**	**295,221**	**1,276,337**	**367,326**	**125,255**	**361,931**	**3,656,394**
Net	**150,805**	**192,268**	**82,680**	**(733,433)**	**450,049**	**246,324**	**(90,889)**	**297,804**

The Group's capability to discharge its liabilities relies on its ability to realise equivalent assets within the same period of time. In the Georgian marketplace, where most of the Group's business is concentrated, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. To reflect the historical stability of current accounts, the Group calculates the minimal daily balance of current accounts over the past two years and includes the amount in the less-than-one-year category in the table above. The remaining current accounts are included in the on-demand category.

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

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

As at 31 December 2013 amounts due to customers amounted to GEL 3,117,732 (2012: GEL 2,693,025, 2011: GEL 2,735,222) and represented 59% (2012: 59%, 2011: 71%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 December 2013 amounts owed to credit institutions amounted to GEL 1,886,096 (2012: GEL 1,657,162, 2011: GEL 921,172) and represented 36% (2012: 36%, 2011: 24%) of total liabilities.

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

30. Related Party Disclosures

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

(All amounts are in Thousands of Georgian Lari)

30. Related Party Disclosures (continued)

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

	2013			2012			2011		
	Shareholders	**Associates**	**Key management personnel[1]**	Shareholders	Associates	Key management personnel[1]	Shareholders	Associates[2]	Key management personnel[1]
Loans outstanding at 1 January, gross	**–**	**–**	**5,136**	**–**	**304**	**6,558**	**–**	**2,191**	**4,758**
Loans issued during the year	**–**	**–**	**2,871**	–	–	7,457	–	954	7,951
Loan repayments during the year	**–**	**–**	**(2,319)**	–	(259)	(8,389)	–	(5,493)	(6,663)
Other movements	**–**	**–**	**(4,204)**	–	(45)	(490)	–	2,652	512
Loans outstanding at 31 December, gross	**–**	**–**	**1,484**	**–**	**–**	**5,136**	**–**	**304**	**6,558**
Less: allowance for impairment at 31 December	**–**	**–**	**(20)**	–	–	(76)	–	(2)	(115)
Loans outstanding at 31 December, net	**–**	**–**	**1,464**	**–**	**–**	**5,060**	**–**	**302**	**443**
Interest income on loans	**–**	**–**	**66**	–	14	640	–	870	718
Loan impairment charge	**–**	**–**	**(14)**	–	–	(1)	–	(2)	(32)
Deposits at 1 January	**11,636**	**17**	**9,681**	**36,730**	**171**	**5,903**	**36,410**	**726**	**8,999**
Deposits received during the year	**–**	**168**	**20,444**	5,373	11,040	28,561	35,365	24,660	21,574
Deposits repaid during the year	**–**	**(119)**	**(15,018)**	(29,494)	(11,191)	(25,264)	(32,147)	(25,229)	(22,254)
Other movements	**(11,636)**	**(16)**	**(3,652)**	(973)	(3)	481	(2,898)	14	(2,416)
Deposits at 31 December	**–**	**50**	**11,455**	**11,636**	**17**	**9,681**	**36,730**	**171**	**5,903**
Interest expense on deposits	**(488)**	**–**	**(425)**	(1,738)	(26)	(612)	(3,019)	(33)	(441)
Other income	**–**	**–**	**86**	–	–	121	693	–	78
Borrowings at 1 January	**233,441**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Conversion of convertible subordinated debts[3]	**–**	**–**	**–**	264,481	–	–	–	–	–
Borrowings received during the year	**61,224**	**–**	**–**	16,470	–	–	–	–	–
Borrowings repaid during the year	**(68,135)**	**–**	**–**	(56,506)	–	–	–	–	–
Other movements	**6,679**	**–**	**–**	8,996	–	–	–	–	–
Borrowings at 31 December	**233,209**	**–**	**–**	**233,441**	**–**	**–**	**–**	**–**	**–**
Interest expense on borrowings	**(16,569)**	**–**	**–**	(16,589)	–	–	–	–	–
Interest rate swaps[4] at 1 January	**4,783**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Conversion of convertible subordinated debts[3]	**–**	**–**	**–**	6,882	–	–	–	–	–
Payments during the year	**(3,728)**	**–**	**–**	(3,040)	–	–	–	–	–
Other movements	**398**	**–**	**–**	941	–	–	–	–	–
Interest rate swaps at 31 December	**1,453**	**–**	**–**	**4,783**	**–**	**–**	**–**	**–**	**–**
Net loss from interest rate swaps	**(398)**	**–**	**–**	(942)	–	–	–	–	–

1. Key management personnel include members of BGH's Board of Directors and Chief Executive Officer and Deputies of the Bank.
2. During the year ended 31 December 2011, loans to two legal entities, controlling stakes of which were owned by a member of the Bank's Management Board and a member of the Bank's Supervisory Board, were outstanding. A total of GEL 775 interest income was recognised on these loans in the consolidated income statement for the year ended 31 December 2011. GEL 36 gross loan remained outstanding as at 31 December 2011 and was completely repaid during 2012.
3. On 24 February 2012, the EBRD and IFC utilised the equity conversion feature of subordinated convertible loans, becoming shareholders of the Group.
4. Interest rate swap agreements with IFC.

Compensation of key management personnel comprised the following:

	2013	2012	2011
Salaries and other benefits	**3,688**	2,656	2,803
Share-based payments compensation	**12,309**	8,048	8,308
Social security costs	**28**	24	37
Total key management compensation	**16,025**	**10,728**	**11,148**

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 26). The number of key management personnel at 31 December 2013 was 15 (15 December 2012: 15, 31 December 2011: 16).

31. Capital Adequacy

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

During year ended 31 December 2013, the Bank and the Group complied in full with all its externally imposed capital requirements.

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

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

NBG Capital Adequacy ratio

The NBG requires banks to maintain a minimum Capital Adequacy ratio of risk-weighted assets, computed based on the Bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 31 December 2013, 31 December 2012 and 31 December 2011, the Bank's Capital Adequacy ratio on this basis was as follows:

	2013	2012	2011
Core capital	**810,545**	739,880	512,238
Supplementary capital	**313,220**	389,685	463,825
Less: Deductions from capital	**(256,471)**	(262,616)	(184,323)
Total regulatory capital	**867,294**	**866,949**	**791,740**
Risk-weighted assets	**5,638,556**	**5,352,187**	**4,872,931**
Total Capital Adequacy ratio	**15.4%**	**16.2%**	**16.2%**

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

(All amounts are in Thousands of Georgian Lari)

31. Capital Adequacy (continued)

Capital Adequacy ratio under Basel Capital Accord 1988

The Bank's Capital Adequacy ratio based on the consolidated statement of financial position and computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2013, 31 December 2012 and 31 December 2011, was as follows:

	2013	2012	2011
Tier 1 Capital	**1,170,104**	1,006,756	764,377
Tier 2 Capital	**256,224**	284,677	380,301
Less: Deductions from capital	**(51,147)**	(48,697)	(49,341)
Total capital	**1,375,181**	**1,242,736**	**1,095,337**
Risk-weighted assets	**5,080,827**	**4,749,484**	**3,839,462**
Total Capital ratio	**27.1%**	26.2%	28.5%
Tier 1 Capital ratio	**23.0%**	21.2%	19.9%
Minimum Capital Adequacy ratio	**8.0%**	**8.0%**	**8.0%**

32. Event After the Reporting Period

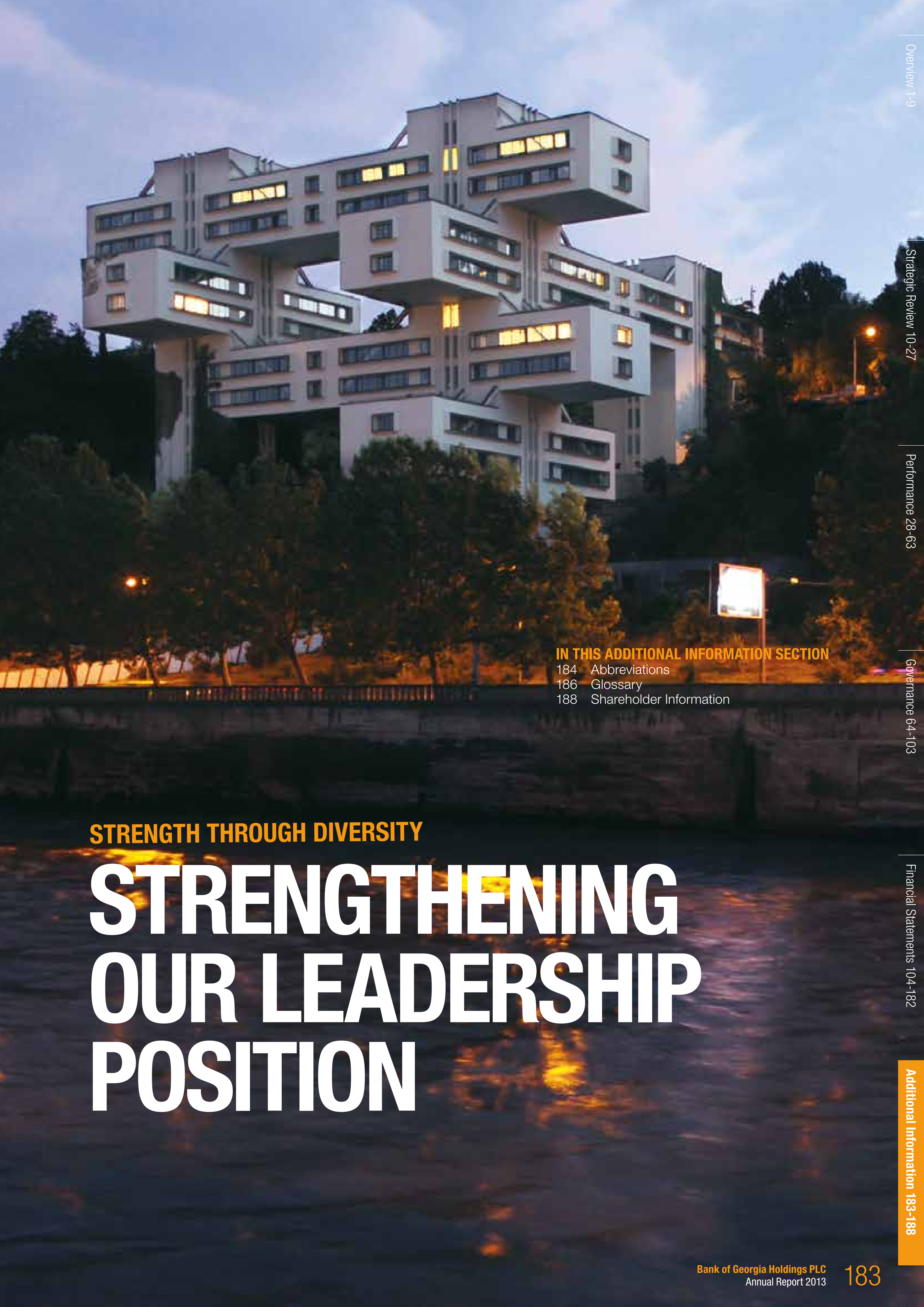
Acquisition of Avante Hospital Management Group LLC

In March 2014, Unimed Kakheti LLC (Acquirer), a wholly-owned subsidiary of the Group, completed the acquisition from previous shareholders of 100% of shares in Avante Hospital Management Group LLC (Acquiree) a healthcare company operating in Georgia.

Total consideration given for the acquisition was GEL 25,032, of which GEL 26,170 was cash, less GEL 1,138 pre-existing payable to the Acquiree.

The acquirer's share in the net asset value of the acquired business on the acquisition date is estimated to be GEL 25,617.

The initial purchase accounting is currently in progress, and not all of the asset valuations and accounting estimates are formally finalised. Therefore, management considers a more detailed disclosure impracticable. A full and complete IFRS 3 disclosure will be presented in the Group's 2014 half-yearly financial statements.



IN THIS ADDITIONAL INFORMATION SECTION

STRENGTH THROUGH DIVERSITY

STRENGTHENING OUR LEADERSHIP POSITION

ABBREVIATIONS

ABCI	Aldagi BCI, former name of JSC Aldagi Insurance Company (Aldagi)
ADB	Asian Development Bank
AFS	Available-for-sale
AGM	Annual General Meeting
ALCO	Asset and Liability Committee
AML	Anti-money laundering
ATMs	Automated Teller Machines
AWM	Asset and Wealth Management
BGH	Bank of Georgia Holdings PLC
BIS	Bank for International Settlement
BKNP	Borjomi-Kharagauli National Park
BNB	Belarusky Narodny Bank
BYR	Belarusian Rouble, national currency of the Republic of Belarus
CAGR	Compounded annual growth rate
CAR	Capital Adequacy ratio
CD	Certificate of Deposit
CEO	Chief Executive Officer
CHF	Swiss Franc, national currency of Switzerland
CPI	Consumer price index
CRM	Customer relationship management
CRO	Chief Risk Officer
DCFTA	Deep and Comprehensive Free Trade Agreement
DFI	Development Finance Institutions
EBRD	European Bank for Reconstruction and Development
EECP	Executives' Equity Compensation Plan
EPS	Earnings per share
ESMS	Environmental and Social Risk Management Procedures
EUR	Euro
EY	Ernst & Young
FATFA	Financial Action Task Force
FDI	Foreign direct investment
FMO	Financierings-Maatschappij voor Ontwikkelingslanden
FMS	Financial Monitoring Services
FRC	Financial Reporting Council
GBP	Great British Pound, national currency of the UK
GDP	Gross domestic product
GDRs	Global Depositary Receipts
GEL	Georgian Lari or Lari, national currency of Georgia
GHG/ GHGs	Greenhouse gas/Greenhouse gases
GLC	Georgian Leasing Company
GPW	Gross Premiums Written
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IDPs	Internally Displaced Persons
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRR	Internal Rate of Return
IT	Information Technology
JCE	Jointly controlled entities
JSC	Joint stock company
KfW	Kreditanstalt für Wiederaufbau
KPIs	Key performance indicators
LCR	Liquidity Coverage ratio
LSE	London Stock Exchange
MFC	My Family Clinic
MOH	Ministry of Labour, Health and Social Affairs
MPA	Motor personal accident
MSME	Micro small and medium enterprise

MTPL	Motor third-party liability insurance
NBG	National Bank of Georgia
NBRB	National Bank of the Republic of Belarus
NGO	Non-governmental organisation
NIM	Net Interest Margin
NMF	Not meaningful to present
NPLs	Non-performing loans
OECD	Organisation for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control
PA	Personal accident
P&C	Property & Casualty
PFFIs	Participating foreign financial institutions
PLC	Public limited company
POS	Point of Sale
PPP	Purchasing power parity
ROAA	Return on Average Assets
ROAE	Return on Average Equity
ROCE	Return on Capital Employed
SBRE	SB Real Estate
SMEs	Small and medium size enterprises
TNS	Taylor Nelson Sofres
TSR	Total Shareholder Return
TUB	Tbiluniversal Bank, Georgia
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
VAR	Value at Risk
WACC	Weighted Average Cost of Capital

Aldagi BCI (ABCI)	Former name of JSC Aldagi Insurance Company (Aldagi)
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) of countries in Asia	A regional development bank established to facilitate economic development
Average Interest Earning Assets	Calculated on a monthly basis; interest-earning assets include: fixed income investment and trading securities, amounts due from credit institutions and loans to customers and finance lease receivables
Basic EPS	Profit for the period from operations attributable to shareholders of the Bank divided by the weighted average number of outstanding ordinary shares over the same period
Belarusky Narodny Bank (BNB)	Belarusian banking subsidiary of Bank of Georgia Group
BG Bank	Currently PJSC Bank Pershiy. In February 2011, the Group disposed of an 80% equity interest in BG Bank
BG Capital	The Bank's wholly-owned subsidiary providing brokerage, custody and corporate finance services
BIS Tier I Capital Adequacy ratio	Tier I Capital divided by total risk-weighted assets, both calculated in accordance with the requirements of Basel Accord I
BIS Total Capital Adequacy ratio	Total Capital divided by total risk-weighted assets, both calculated in accordance with the requirements of Basel Accord I
Book value per share	Total equity attributable to shareholders of the Bank divided by 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
Cost of Funding	Interest expense of the period (adjusted for the gains or losses from revaluation of interest rate derivatives) divided by monthly average interest bearing liabilities; interest bearing liabilities include: amounts due to credit institutions, amounts due to customers and interest rate derivatives
Cost to Income ratio	Operating expenses divided by revenue
Development Finance Institutions (DFIs)	Development finance 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, IFC, ADB, etc
Environmental and Social Policy	A policy adopted by the BGH Board of Directors in 2012
Express banking	A wide array of services and products including Express branches, Express Cards and Express Pay Terminals, aimed at attracting mass-market customers
Express branch	A small-format branch offering predominantly transactional banking services through ATMs and Express Pay Terminals
Express card	A contactless card with a loyalty programme linked to the customer's current account, which can also be used for transport payments
Express Metro Branches	Express branches in metro stations in Tbilisi
East-West Highway	The main highway in Georgia
Express Pay (self-service) Terminal	A payment terminal enabling customers to make various payments remotely including utility bill payments and loan repayments at a wide variety of locations
FMO	Financierings-Maatschappij voor Ontwikkelingslanden: The Netherlands Development Bank
Georgian Leasing Company (GLC)	The Bank's wholly-owned subsidiary through which it provides finance leasing services
Geostat	National Statistics Office of Georgia
Global Depositary Receipt (GDR)	A certificate issued by a depositary bank, which represents ownership of an underlying number of shares
Gross loans	In all sections of the Annual Report, 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 für Wiederaufbau (KfW)	German government-owned development bank
Liberty Consumer	A Georgia-focused investment company in which the Group holds a 68% stake

Loan Yield	Interest income from loans to customers and finance lease receivables divided by monthly average gross loans to customers and finance lease receivables
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 2013 (unless noted otherwise) on a stand-alone basis. For Aldagi, market share is provided based on the gross insurance premium revenue as of 30 September 2013
My Family Clinic	Healthcare subsidiary of Aldagi
NBG Tier I Capital Adequacy ratio	Tier I Capital a divided by total risk-weighted assets, both calculated in accordance with the requirements the National Bank of Georgia instructions
NBG Total Capital Adequacy ratio	Total Capital divided by total risk-weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions
Net Interest Margin (NIM)	Net interest income of the period (adjusted for the gains or losses from revaluation of interest rate derivatives) divided by monthly average interest-earning assets for the same period
Net loans	In all sections of the Annual Report, 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	Equals operating expenses
Operating leverage	Percentage change in revenue less percentage change in 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
Return on Average Total Assets (ROAA)	Profit for the period from continuing operations divided by monthly Average Total Assets for the same period
Return on Average Total Equity (ROAE)	Profit for the period from continuing operations attributable to shareholders of the Bank divided by monthly average equity attributable to shareholders of the Bank for the same period
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. The 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

Annual General Meeting

The Annual General Meeting of BGH (the AGM) will be held at 10:00 am (London time) on Wednesday, 28 May 2014 at Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London EC4Y 1HS. Details of the business to be conducted at the AGM are contained in the Notice of AGM which will be mailed to shareholders on or about 28 April 2014 and will be available on the BGH's website: www.bogh.co.uk

Shareholder inquiries

BGH's share register is maintained by Computershare.

Any queries about the administration of holdings of ordinary shares, such as change of address or change of ownership, should be directed to the address or telephone number immediately below. Holders of ordinary shares may also check details of their shareholding, subject to passing an identity check, by visiting the Registrar's website www.investorcentre.co.uk

Computershare
Pavilions, Bridgewater Road
Bristol BS99 6ZY
United Kingdom
+44 (0)870 873 5866

Dividends

On 18 February 2014, the Directors of BGH declared their intention to recommend an annual dividend in the amount of GEL 2.0 per share (payable in British Pounds Sterling at the prevailing rate), subject to approval by the shareholders at BGH's AGM. As a holding company whose principal assets are the shares of its subsidiaries, BGH relies primarily on dividends and other statutorily and contractually permissible payments from its subsidiaries, principally the Bank to generate reserves necessary to pay dividends to its shareholders.

If the annual dividend is approved at BGH's AGM on 28 May 2014, BGH envisions the following dividend timetable:

Ex-Dividend Date: 4 June 2014
Record Date: 6 June 2014
Currency Conversion Date: 9 June 2014
Payment Date: 18 June 2014

Share price information

As of the date of this Annual Report, BGH shareholders can access both the latest and historical prices via our website, www.bogh.co.uk, as well as listings in the *Financial Times*.

Forward-looking statements

Where this Annual Report contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this Annual Report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions investors that a number of important factors, including those in this Annual Report, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under “Risks and Uncertainties” on pages 20 to 27 of this Annual Report.

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84 Brook Street
London W1K 5EH
United Kingdom