BANK OF GEORGIA HOLDINGS PLC

HALF-YEAR REPORT 2014

BANK OF GEORGIA HOLDINGS PLC

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HIGHLIGHTS

Bank of Georgia Holdings PLC (LSE: BGEO LN), the holding company of Georgia's leading bank JSC Bank of Georgia (the "Bank") and its subsidiaries (the "Group"), announced today the Group's 1H 2014 and Q2 2014 consolidated results reporting a record half-year profit for 1H 2014 of GEL 112.0 million (US$63.3 million/GBP 37.2 million) and record earnings per share of GEL 3.15 (US$1.78 per share/GBP 1.05 per share). The Bank also reported Q2 2014 profit of GEL 58.3 million (US$33.0 million/GBP 19.4 million), or GEL 1.64 per share (US$0.93 per share/GBP 0.54 per share). Unless otherwise mentioned, comparisons are with the first half of 2013. The results are based on IFRS, are unaudited and derived from management accounts.

- **Strong profit momentum maintained**
  - Net Interest Margin (NIM) of 7.3%, compared to 7.8% in 1H 2013
    - Q2 2014 NIM of 7.3%, compared to 7.9% in Q2 2013 and 7.4% in Q1 2014
  - Revenue increased by 7.3% y-o-y to GEL 281.5 million in 1H 2014
    - Q2 2014 revenue of GEL 144.2 million, up 3.2% y-o-y and 5.0% q-o-q.
  - Cost to Income ratio stood at 43.8% in 1H 2014 compared to 41.7% in 1H 2013
    - Q2 2014 Cost to Income ratio stood at 44.6% compared to 39.9% in Q2 2013 and 43.0% in Q1 2014
  - Profit for 1H 2014 increased to GEL 112.0 million, up 17.7% y-o-y
    - Profit increased to GEL 58.3 million in Q2 2014, up 9.8% y-o-y and up 8.7% q-o-q
  - Earnings per share (EPS) increased by 16.7% to GEL 3.15 in 1H 2014 compared to GEL 2.70 in 1H 2013
    - Q2 2014 EPS stood at GEL 1.64, up 8.6% on both a y-o-y and q-o-q basis
  - Return on Average Assets (ROAA), adjusted for impairment* stood at 3.5% in 1H 2014 largely flat on a year-on-year basis
    - ROAA, adjusted for impairment stood at 3.7% in Q2 2014, compared to 3.8% in Q2 2013 and 3.3% in Q1 2014
  - Return on Average Equity (ROAE), adjusted for impairment stood at 18.7% in 1H 2014, compared to 17.6% in 1H 2013
    - ROAE, adjusted for impairment stood at 19.7% in Q2 2014 compared to 19.3% in Q2 2013 and 17.7% in Q1 2014
- **Balance sheet strength supported by solid capital and liquidity positions and declining Cost of Funding**
  - Net loan book increased by 17.2% y-o-y (up 4.9% q-o-q), while client deposits increased by 7.4% y-o-y (up 0.3% q-o-q)
  - Cost of Client Deposits decreased to a record low of 4.4% in 1H 2014 from 6.2% in 1H 2013. Q2 2014 Cost of Client Deposits stood at 4.3% down from 5.9% in Q2 2013 and 4.6% in Q1 2014. Loan Yields also declined to 14.7% from 16.9% in 1H 2013. Quarterly loan yields stood at 14.5% in Q2 2014 compared to14.9% in Q1 2014 and 17.0% in Q2 2013
  - Cost of credit risk improved significantly in 1H 2014 to GEL 27.2 million from GEL 36.3 million in 1H 2013. This represents an annualised Cost of Risk ratio of 1.0%.
  - High liquidity maintained with 27.6% of total assets made up of cash and cash equivalents, amounts due from credit institutions, the NBG CDs, Georgian government treasury bills and bonds and other high quality liquid assets as of 30 June 2014. Liquidity ratio, as per National Bank of Georgia (NBG) requirements, stood at 38.1% against the regulatory minimum of 30%
  - As of 30 June 2014, Net Loans to Customer Funds and DFI ratio stood at a healthy level of 100.3% compared to 96.2% as of 31 December 2013 and 96.4% as of 31 March 2014. The Net Loans to Customer Funds ratio stood at 119.0% compared to 113.0% as of 31 December 2013 and 113.8% as of 31 March 2014
  - BIS Tier I capital adequacy ratio stood at 22.5% compared to 22.9% a year ago.
  - NBG (Basel 2/3) Tier I capital adequacy ratio stood at 10.8% as at 30 June 2014 compared to 13.1% as at 31 December 2014 (see Annex I on page 44 for more information)
  - Book value per share increased by 13.1% y-o-y to GEL 34.95 (US$19.76/GBP 11.61)
  - Balance Sheet leverage remained largely flat y-o-y at 4.3 times

****Adjusted for one-off impairment of BG Bank in Ukraine***

- **Business highlights**
  - Retail Banking continues to deliver strong franchise growth, supported by the Express Banking strategy, adding 2,038 Express Pay Terminals and 613,159 Express Cards since the launch of the Express Banking service. Retail Banking's net loan book grew 21.4% y-o-y and stood at GEL 1,754.2 million, while client deposits increased by 22.5% y-o-y to GEL 1,134.2 million
  - Corporate Banking's net loan book growth rate picked up in Q2 2014, increasing by 8.1% y-o-y to GEL 1,802.8 as of 30 June 2014. Corporate Banking Cost of Deposits decreased markedly from 5.5% in 1H 2013 to a record low 3.0% in 1H 2014
  - Investment Management's Assets under Management (AUM*) increased by 15.9% y-o-y to GEL 901.0 million as of 30 June 2014. Since the launch of the Certificate of Deposit (CD) programme in January 2013, the volume of CDs issued reached GEL 314.0 million, as of 30 June 2014
  - The Group's insurance and healthcare business reported GEL 11.1 million profit (GEL 11.4 million in 1H 2013). The Group's healthcare business reported a GEL 6.2 million 1H 2014 profit (GEL 2.5 million in 1H 2013) and expanded its healthcare business through acquisitions to 36 healthcare facilities and 1,892 hospital beds. The market share of the Group's healthcare business grew from 14.3% as of 31 December 2013 to 19.9% as of 30 June 2014 in terms of hospital beds, while the health insurance business of the Group accounted for 37.6% of the total health insurance sector of Georgia based on gross premiums written as of 31 March 2014, compared to 31.1% as of 31 December 2013
  - Affordable Housing completed its second housing project and the construction of two new housing projects is underway. Net profit from the Bank's Affordable Housing business totalled GEL 6.2 million in 1H 2014, reflecting the recognition of major part of the revenue from the completed second project

Includes AUM of BG Capital and Aldagi Pension Fund

STATEMENT OF CEO

"I am pleased to report another set of record half year results that reflect the solid performance of our banking operations and the increasing impact from our diversified revenue sources. The Group posted 1H 2014 revenue of GEL 281.5 million and profit of GEL 112.0 million, up 7.3% and 17.7%, respectively.

The main drivers of the banking business growth were the further decline of our cost of funding, which continued to support our NIM at a healthy 7.3% for the half year, and asset quality improvement. The loan book, which grew 17.2% y-o-y to GEL 3,659.4 million, benefited from the pick-up in lending of Corporate Banking (up 8.1% y-o-y) and the robust growth of the Retail Banking loan book (up 21.4% y-o-y). Our key non-banking subsidiaries, our healthcare and affordable housing businesses in particular, contributed a combined 14.4% to our 1H revenue and 15.5% to the profit for the same period.

In the past six months, our pricing and operating decisions have been determined by our main priorities -maintaining high levels of profitability, growing the loan book without compromising asset quality and optimising our liability structure and funding costs. While substantial deposit rate cuts, combined with the reduction of other funding costs over the past 18 months, have resulted in a record low cost of funding for the Bank, the ample liquidity in the banking sector and relatively low demand for loans are placing downward pressure on loan yields. Largely driven by competitive pressures, our loan yield declined 220 bps y-o-y in 1H 2014 compared to a 180 bps y-o-y reduction in deposit cost, leading to reduced interest income from loans, despite a healthy loan book growth of 17.2% y-o-y and 3.9% YTD. This trend has particularly affected the profitability of Corporate Banking where competition is most intense. While the strength of our franchise enables us to defend our profitability, it also places us in a unique position in the market for seizing opportunities arising from the current environment.

Retail Banking continues to post robust results strongly benefiting from our market leading positions in the mass retail and emerging market segments, in particular. Our Express Banking strategy will continue to contribute significantly to our client acquisition efforts, drive further increases in current account balances and will augment our constant cost-containment efforts on the back of the shift to predominantly technology-based lower cost banking services that we will deliver by means of this strategy and our existing superiority in the payment systems market.

In Corporate Banking we see opportunities to be gained from expanding our fee generating business to be supported by our Investment Management business that will increasingly become an integral part of our corporate banking offering along with the evolving financing needs of our corporate clients. In addition to the planned launch of our private equity funds, our IM business, which now also includes our private banking, research and brokerage businesses, is gearing up to build its corporate advisory business. Two months ago, IM demonstrated significant placement power by successfully placing two bond issuances totalling US$15 million by m2 Real Estate in a month. Quite pleasingly, demand was primarily driven by both international and local wealth management clients. M2 Real Estate, our real estate subsidiary, in business for only a few years, has recently completed its second, 522 apartment project with 97% of apartments already sold with more than a third financed through the Bank's mortgages. More importantly, it has established its strong brand name in the market and demonstrated a proven ability to independently finance its further development. We believe that m2 Real Estate's success in raising funds through these bond placements will pave the way for other Georgian corporates, and our Investment Management business has a significant role to play in the development of Georgia's securities market.

I would like to underline the demonstrated ability of this institution to grow and develop non-banking subsidiaries, which now contribute meaningfully to the revenue and profit of the Group, translating into increased value for our shareholders. If expressed in numbers, only three years ago Aldagi, our insurance and healthcare business, contributed 4.7% to our profit. In the last ten years, Aldagi has transformed itself from being primarily a insurance services provider to the largest player in the property and casualty, health insurance and healthcare sectors, the growth supported by its entrance into the healthcare business a few years ago. The scale and vertical integration of the healthcare services and health insurance businesses has enabled us to better control costs and to benefit from greater economies of scale compared to other healthcare players on the Georgian market. In 1H 2014, we continued to execute our strategy of scaling up our healthcare business through targeted hospital acquisitions in Tbilisi. To this end, Aldagi completed three hospital acquisitions in the first half of the year, adding 638 bed operating capacity to its hospital franchise.

We recently announced the split of Aldagi into two business lines – a pure-play property and casualty insurance business and a pure-play healthcare business that combines our healthcare operations and health insurance businesses. The new structure is a logical outcome of the successful expansion of Aldagi and is well-suited for the aspirations of the healthcare-related business to become a publicly listed company, gain access to international capital markets in order to capitalise on the opportunities presented by Georgia's growing healthcare sector. On a standalone basis, our healthcare-related operation has grown to GEL 91.8 million revenue business (compared to GEL 76.4 million in 1H 2013), which enjoys 37.6% of the market share by health insurance revenue, 19.9% market share in terms of hospital beds and is rapidly progressing towards its goal to become another publicly listed company on an international stock exchange.

Following the restructuring of Aldagi, our P&C insurance business remains within the Group, as we consider it synergistic to the Bank's operations. Aldagi P&C insurance will be stepping-up cross-selling of its insurance products with the Bank's Retail Banking, Corporate Banking and Investment Management products.

Our balance sheet remains strong. Our BIS Tier I CAR ratio stood at 22.5% at the end of the reporting period and asset growth of 17.6% y-o-y was mainly driven by the loan book growth. Our asset quality is improving with NPLs declining to 3.9% of gross loans compared to 4.1% in 1H 2013, and cost of credit risk declining by 25.1% y-o-y to GEL 27.2 million, reflecting the improving economic environment.

The Georgian economy is enjoying improving trends, reporting real GDP growth rate of 6.0% in 1H 2014 and a pick-up in private investment flows (up 14.9% y-o-y in Q1 2014). Georgia has quite limited exposure to the Russian and Ukrainian economies (each accounting for 6.6% of Georgia's total exports in 2013), despite the recent increase in exports to Russia following the lift of the ban of Georgian agricultural produce. On the other hand, the signing of the Deep and Comprehensive Free Trade Agreement with EU at the end of June 2014, is expected to contribute further to Georgia's integration with Western economies and allow it to further diversify and increase its exports to these markets.

I would also like to use this opportunity to reiterate our excitement at hosting the first Georgia/Azerbaijan Equity and Bond Conference organised by our brokerage subsidiary BG Capital, now part of our Investment Management business. The conference will be held on 4 September 2014, in conjunction with the annual Bank of Georgia Investor Day to be held on 5 September 2014 in Tbilisi, Georgia. The BG Capital Equity & Bond conference aims to cover economic developments in both countries, explore the possibilities for new bond and equity placements and facilitate a dialogue between potential regional bond and equity issuers and the investor community. We are delighted to be welcoming the participants of both our Equity and Bond Conference and our Investor Day, where management teams of the Bank and our subsidiaries will have an opportunity to meet our investors and analysts and provide them with further details on our 1H results and share our vision and our strategic initiatives.

We are looking forward to seeing you in Tbilisi next month." commented ***Irakli Gilauri*****,** Chief Executive Officer of Bank of Georgia Holdings PLC and JSC Bank of Georgia.

FINANCIAL SUMMARY

BGH (Consolidated, Unaudited, IFRS-based)
Income Statement Summary
GEL thousands, unless otherwise noted

	1H 2014	1H 2013	Change Y-O-Y
Revenue[1]	281,512	262,419	7.3%
Operating expenses	(123,314)	(109,364)	12.8%
Operating income before cost of credit risk	158,198	153,055	3.4%
Cost of credit risk[2]	(27,162)	(36,261)	-25.1%
Operating income before non-recurring items	131,036	116,794	12.2%
Net non-recurring items	(8,198)	(5,453)	50.3%
Profit	111,981	95,102	17.7%
Earnings per share	3.15	2.70	16.7%

BGH (Consolidated, Unaudited, IFRS-based)
Statement of Financial Position
GEL thousands, unless otherwise noted

	30 June 2014	30 June 2013	Change Y-O-Y	31 March 2014	Change Q-O-Q
Total assets	6,667,395	5,671,694	17.6%	6,619,775	0.7%
Net loans[3]	3,659,427	3,122,916	17.2%	3,489,252	4.9%
Customer funds[4]	3,074,710	2,850,234	7.9%	3,065,536	0.3%
Tier I Capital Adequacy Ratio (BIS)[5]	22.5%	22.9%		23.7%	
Total Capital Adequacy Ratio (BIS)[5]	26.3%	27.8%		27.7%	
NBG Tier I Capital Adequacy Ratio (Basel 2/3)[6]	10.8%	N/A		12.9%	
NBG Total Capital Adequacy Ratio (Basel 2/3)[6]	14.0%	N/A		16.2%	
NBG Tier I Capital Adequacy Ratio[7]	14.8%	15.4%		16.4%	
NBG Total Capital Adequacy Ratio[7]	13.8%	16.3%		15.5%	
Leverage (times)[8]	4.3	4.1		4.1	
GEL/US Exchange Rate (period-end)	1.7691	1.6509		1.7477	
GEL/GBP Exchange Rate (period-end)	3.0114	2.5160		2.9035	

BGH (Consolidated, Unaudited, IFRS-based)
Income Statement Summary
GEL thousands, unless otherwise noted

	Q2 2014	Q2 2013	Change Y-O-Y	Q1 2014	Change Q-O-Q
Revenue[1]	144,175	139,653	3.2%	137,337	5.0%
Operating expenses	(64,270)	(55,693)	15.4%	(59,043)	8.9%
Operating income before cost of credit risk	79,905	83,960	-4.8%	78,294	2.1%
Cost of credit risk[2]	(13,847)	(18,984)	-27.1%	(13,316)	4.0%
Operating income before net non-recurring items	66,058	64,976	1.7%	64,978	1.7%
Net non-recurring items	(7,077)	(4,088)	73.1%	(1,120)	NMF
Profit	58,318	53,105	9.8%	53,664	8.7%
Earnings per share (basic) (GEL)	1.64	1.51	8.6%	1.51	8.6%

[1] Revenue includes net interest income, net fee and commission income, net insurance revenue, net healthcare revenue and other operating non-interest income
[2] Cost of credit risk includes impairment charge (reversal of impairment) on: loans to customers, finance lease receivables and other assets and provisions
[3] Net loans equal to net loans to customers and net finance lease receivables
[4] Customer funds equal amounts due to customers
[5] BIS Tier I Capital Adequacy ratio equals consolidated Tier I Capital as of the period end divided by total consolidated risk weighted assets as of the same date. BIS Total Capital Adequacy ratio equals total consolidated capital as of the period end divided by total consolidated risk weighted assets. Both ratios are calculated in accordance with the requirements of Basel Accord I
[6] NBG Tier I Capital and Total Capital Adequacy ratios are calculated in accordance with the requirements of the National Bank of Georgia based on Basel 2/3 for more information please see page 44
[7] NBG Tier I Capital and Total Capital Adequacy ratios are calculated in accordance with the requirements of the National Bank of Georgia based on Basel I
[8] Leverage (times) equals total liabilities divided by total equity

DISCUSSION OF RESULTS

Revenue

GEL thousands, unless otherwise noted	1H 2014	1H 2013	Change Y-O-Y
Loans to customers	258,571	260,047	-0.6%
Investment securities[1]	18,071	17,642	2.4%
Amounts due from credit institutions	3,505	4,945	-29.1%
Finance lease receivables	4,498	3,208	40.2%
Interest income	**284,645**	**285,842**	**-0.4%**
Amounts due to customers	(66,987)	(85,538)	-21.7%
Amounts due to credit institutions, of which:	(30,970)	(33,434)	-7.4%
Subordinated debt	*(5,989)*	*(11,144)*	*-46.3%*
Loans and deposits from other banks	*(24,981)*	*(22,290)*	*12.1%*
Debt securities issued, of which:	(26,430)	(16,191)	63.2%
Eurobonds	*(25,967)*	*(16,191)*	*60.4%*
Other	*(463)*	-	-
Interest expense	**(124,387)**	**(135,163)**	**-8.0%**
Net interest income before interest rate swaps	**160,258**	**150,679**	**6.4%**
Net loss from interest rate swaps	-	(185)	-100.0%
Net interest income	**160,258**	**150,494**	**6.5%**
Fee and commission income	62,815	54,898	14.4%
Fee and commission expense	(16,768)	(12,622)	32.8%
Net fee and commission income	**46,047**	**42,276**	**8.9%**
Net insurance premiums earned	54,618	64,289	-15.0%
Net insurance claims incurred	(38,560)	(41,565)	-7.2%
Net insurance revenue	**16,058**	**22,724**	**-29.3%**
Healthcare revenue	52,591	27,489	91.3%
Cost of healthcare services	(32,855)	(18,498)	77.6%
Net healthcare revenue[2]	**19,736**	**8,991**	**119.5%**
Real estate income	11,793	2,599	NMF
Net gain from trading and investment securities	185	2,590	-92.9%
Net gain from revaluation of investment property	-	4,842	-100.0%
Net gain from foreign currencies	20,852	21,677	-3.8%
Other operating income	6,583	6,226	5.7%
Other operating non-interest income	**39,413**	**37,934**	**3.9%**
Revenue	**281,512**	**262,419**	**7.3%**

[1] Investment securities primarily consist of Georgian government treasury bills and bonds and National Bank of Georgia's Certificates of Deposits *(NBG CDs)*
[2] For the Net healthcare revenue disclosures please see the Insurance and Healthcare segment discussion

Revenue continued to be broadly based in 1H 2014, reaching another half-year record of GEL 281.5 million, up 7.3% y-o-y. The strong performance was driven by the robust growth of both net interest income and non-interest income, the latter primarily supported by record-revenues from our healthcare and real estate businesses.

Net interest income increased 6.5% y-o-y in 1H 2014 to reach GEL 160.3 million, largely as a result of an 8.0% y-o-y decrease in interest expense to GEL 124.4 million. Interest expense on customer funds (amounts due to customers), which was the main driver of the interest expense improvement, decreased by 21.7% y-o-y to GEL 67.0 million, despite the 7.9% y-o-y increase of customer funds. The decrease of interest expense on customer funds was attributed to the 180 bps y-o-y decrease in Cost of Client Deposits to 4.4% in 1H 2014, a result of number of substantial deposit rate cuts in 2013 and in 2014. The decline in interest expense was also driven by a 7.4% y-o-y decrease in interest expense on amounts due to credit institutions to GEL 31.0 million, which decreased as a result of the repayment of more costly subordinated debt in the first half of 2014. Interest expense on amounts due to debt securities issued grew by 63.2% y-o-y following the tap issue of Eurobonds in the second half of 2013, only partially offsetting the improvements of other interest expense items. The overall impact from the continuous liability management efforts resulted in yet another reporting period of record low Cost of Funding of 5.0% in 1H 2014, down by 140 bps y-o-y.

Interest income stayed largely flat in 1H 2014 at GEL 284.6 million in spite of a 17.2% y-o-y increase in the net loan book in 1H 2014 due to the decline in the Loan Yield of 220 bps to 14.7%. The Loan Yield decline was primarily due to competitive pressures in the banking industry and a high level of excess liquidity in the sector. Correspondingly, notwithstanding the 24.4% y-o-y growth of average liquid assets during the period, the declining yields also resulted in y-o-y growth of only 2.4% in interest income from investment securities and a 29.1% y-o-y decline in interest income on amounts due from credit institutions.

Net Interest Margin (NIM)

GEL thousands, unless otherwise noted	**1H 2014**	**1H 2013**	**Change Y-O-Y**
Net interest income	160,258	150,494	6.5%
Net Interest Margin	**7.3%**	**7.8%**	
Average interest earning assets[1]	4,443,005	3,931,547	13.0%
Average interest bearing liabilities[1]	5,026,097	4,243,520	18.4%
Average loans, currency blended	3,525,340	3,041,594	15.9%
Average loans, GEL	*1,143,596*	*900,542*	*27.0%*
Average loans, FC	*2,381,744*	*2,141,052*	*11.2%*
Average client deposits, currency blended	3,030,523	2,468,512	9.5%
Average client deposits, GEL	*869,518*	*954,484*	*-8.9%*
Average client deposits, FC	*2,161,005*	*1,814,027*	*19.1%*
Average liquid assets, currency blended	1,931,177	1,552,728	24.4%
Average liquid assets, GEL	805,239	743,947	8.2%
Average liquid assets, FC	1,125,938	808,781	39.2%
Excess liquidity (NBG)[2] *(excl. additional liquidity requirement for non-resident depositors)*	399,540	491,666	-18.7%
Additional liquidity requirement for non-resident depositors	144,417	-	NMF
Excess liquidity (NBG)[2]	255,123	491,666	-48.1%
Liquid assets yield, currency blended	2.3%	2.9%	
Liquid assets yield, GEL	4.9%	5.2%	
Liquid assets yield, FC	0.2%	0.3%	
Loan yield, total	14.7%	16.9%	
Loan yield, GEL	19.5%	23.4%	
Loan yield, FC	12.1%	14.0%	
Cost of funds, total	5.0%	6.4%	
Cost of funds, GEL	4.1%	5.7%	
Cost of funds, FC	5.3%	6.7%	

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

The NIM, which remains comfortably within the management-announced target of 7-7.5%, declined 50 bps in 1H 2014 to 7.3% as the 6.5% growth in net interest income lagged behind the 13.0% growth rate of average interest earning assets for the period. Competitive pressures on the market contributed to the decline in the Loan Yield by 220 bps outweighing a 140 bps decrease in Cost of Funding.

Despite the above-mentioned downward pressures during the period, the NIM continued to be strongly supported by an increased portion of higher-yielding Retail Banking loan products in the Group's total loan book. Benefiting from the expansion of the Express Banking business, the share of the Retail Banking loan book* in the Group's consolidated loan portfolio grew from 46% as of 30 June 2013 to 48% as of 30 June 2014. The faster growth rate of GEL denominated Retail Banking loan book than foreign currency denominated Retail Banking loans (22.6% vs 20.0%, respectively) also supported the NIM during the period.

**Includes GEL 27.2 million mortgages generated by the Bank's Affordable Housing business*

Net fee and commission income

GEL thousands, unless otherwise noted	1H 2014	1H 2013	Change Y-O-Y
Fee and commission income	62,815	54,898	14.4%
Fee and commission expense	(16,768)	(12,622)	32.8%
Net fee and commission income	**46,047**	**42,276**	**8.9%**

The Group's net fee and commission income grew by GEL 3.8 million, or 8.9% y-o-y, to GEL 46.0 million in 1H 2014, reversing the subdued growth trend of the fee and commission income of the past few quarters. Fee and commission income picked up in Q2 2014 and increased 14.4% y-o-y in 1H 2014 to GEL 62.8 million, reflecting the improving operating environment and the increased economic activity of the Bank's corporate clients and the increase of the Bank's settlement operations, driven by the expansion of the Bank's Express Banking business through which it delivers cost effective self-service transactional and remote banking facilities. Fee and commission expense increased by 32.8% driven by costs associated with client acquisition within its Express Banking service and card fees. Another factor contributing to the y-o-y increase in fee expenses was the outsourcing of the Bank's cash collection service, the costs (approximately GEL 1.1 million in 1H 2014) of which effectively shifted from salaries and other employee benefits to fee and commission expense.

Net insurance revenue and net healthcare revenue

GEL thousands, unless otherwise noted	1H 2014	1H 2013	Change Y-O-Y
Net insurance premiums earned	54,618	64,289	-15.0%
Net insurance claims incurred	(38,560)	(41,565)	-7.2%
Net insurance revenue	**16,058**	**22,724**	**-29.3%**
Healthcare revenue	52,591	27,489	91.3%
Cost of healthcare services, of which:	(32,855)	(18,498)	77.6%
Salaries and other employee benefits	*(19,221)*	*(10,682)*	*79.9%*
Depreciation expenses	*(3,170)*	*(1,564)*	*102.7%*
Other operating expenses	*(10,464)*	*(6,252)*	*67.4%*
Net healthcare revenue[1]	**19,736**	**8,991**	**119.5%**
Net insurance and healthcare revenue (total)	**35,794**	**31,715**	**12.9%**

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

The Group's insurance and healthcare business enjoys a market share of 19.9% in terms of hospital beds as of 30 June 2014 (14.3% as of 31 December 2013), 37.6% in health insurance (28.7% as of 30 June 2013) and 37.8% in P&C insurance as of 31 March 2014, based on gross insurance premium revenue (34.4% as of 30 June 2013), insurance data as reported by the Insurance State Supervision Service of Georgia.

The Group's insurance and healthcare revenue totalled GEL 35.8 million in 1H 2014, up 12.9% y-o-y. The increase was primarily driven by a strong performance of the Group's healthcare operations, following a number of hospital acquisitions towards the end of 2013 and beginning of 2014 as well as organic growth. Healthcare revenue in 1H 2014 partially includes revenue and costs generated from the hospital businesses acquired during the first half of 2014. The Georgian healthcare industry also benefited from the introduction of a new Government-funded universal healthcare reform (Universal Healthcare Programme or UHP), which has extended healthcare coverage to a wider portion of the population. The subsequent increase of the state-funded healthcare expenditure in the country strongly contributed to the organic growth of the healthcare business and the expanded healthcare operations through acquisitions and led to the robust market share growth of the Group's healthcare business. The integrated business model of the two healthcare-related businesses (health insurance and healthcare service business) translated into health insurance playing a feeder role driving patient volumes to the Group's healthcare service business.

The cost of healthcare services grew at the rate of 77.6% y-o-y, comparing favorably to the 91.3% y-o-y healthcare revenue growth rate, as the cost synergies achieved from the ongoing integration of the acquired hospital businesses have started to be reflected in the financial results of Aldagi.

As expected, the Group's insurance business posted a decline in net insurance revenue due to lower insurance premiums earned as the recently introduced state-funded healthcare coverage is in the process of being shifted to direct management by the state away from private insurance companies. In addition, the healthcare reform also resulted in the decrease of the amount of health claims expenditure concentrated within the Group. Notwithstanding the decline of insurance premiums earned, the Group's market share in health insurance in terms of gross insurance premium revenue grew from 28.7% as of 30 June 2013 to 37.6% as of 31 March 2014 (as reported by the Insurance State Supervision Service in Georgia). *(For more information see Insurance and Healthcare discussion on page 24)*

Other operating non-interest income

GEL thousands, unless otherwise noted	1H 2014	1H 2013	Change Y-O-Y
Real estate income	11,793	2,599	NMF
Net gain from trading and investment securities	185	2,590	-92.9%
Net gain from revaluation of investment property	-	4,842	-100.0%
Net gain from foreign currencies	20,852	21,677	-3.8%
Other operating income[1]	6,583	6,226	5.7%
Other operating non-interest income	**39,413**	**37,934**	**3.9%**

[1] Other operating income includes net revenue from Teliani Valley

The 3.9% y-o-y increase in other operating non-interest income to GEL 39.4 million was driven by the robust performance of the Bank's real estate subsidiary, m2 Real Estate, which more than offset the absence of the net gain from revaluation of investment property during the comparable period in 2013 and the decreases in net gain from trading and investment securities and net gain from foreign currencies. The real estate income increased from GEL 2.6 million in 1H 2014 to GEL 11.8 million in 1H 2014, which is primarily due to the recognition of revenue from its second and the largest project to date following the handover of completed apartments. M2 Real estate contributed GEL 9.7 million of the GEL 11.8 million in 1H 2014 real estate income, with the balance coming from operating leases and gain/loss from sale of property and equipment and investment property of the entire Bank of Georgia Group. Other operating income, which predominantly includes revenue from the Bank's wine making subsidiary Teliani Valley, increased by 5.7% to GEL 6.6 million.

Operating income before non-recurring items, cost of credit risk, profit for the period

GEL thousands, unless otherwise noted	1H 2014	1H 2013	Change Y-O-Y
Salaries and other employee benefits	(73,058)	(65,077)	12.3%
General and administrative expenses	(34,688)	(29,764)	16.5%
Depreciation and amortisation expenses	(13,806)	(13,339)	3.5%
Other operating expenses	(1,762)	(1,184)	48.8%
Operating expenses	**(123,314)**	**(109,364)**	**12.8%**
Operating income before cost of credit risk	**158,198**	**153,055**	**3.4%**
Cost of credit risk	**(27,162)**	**(36,261)**	**-25.1%**
Operating income before net non-recurring items	**131,036**	**116,794**	**12.2%**
Net non-recurring items	(8,198)	(5,453)	50.3%
Profit before income tax expense	**122,838**	**111,341**	**10.3%**
Income tax expense	(10,857)	(16,239)	-33.1%
Profit	**111,981**	**95,102**	**17.7%**

The Bank's operating expenses increased 12.8% y-o-y to GEL 123.3 million as a result of a 12.3% increase in salaries and other employee benefits to GEL 73.1 million and a 16.5% increase in general and administrative expenses to GEL 34.7 million. The growth in operating expenses was driven by the growth of Group's businesses across the board and particularly its healthcare business, which has not yet fully realised post acquisition synergies and has significantly increased its headcount as a result of acquisitions. Bank of Georgia's standalone headcount, stayed largely flat at 3,629 employees but the increase in the number of senior managers eligible for share based compensation pushed salaries and other employee benefits higher. The growth in expenses was also impacted by our expanded Corporate Social Responsibility programme, which entails initiatives to promote education, conserving nature and supporting children with disabilities. Our Investment Management business, which is gearing up to build its corporate advisory business, also put an upward pressure on costs during the reporting period. The Cost to Income ratio stood at 43.8% in 1H 2014 compared to 41.7% in 1H 2013. As restructuring and integration process for the Bank's healthcare business winds down, the Cost to Income ratio should revert to a declining trend.

As a result, operating income before cost of credit risk increased by 3.4% to GEL 158.2 million.

The cost of credit risk decreased 25.1% to GEL 27.2 million largely as a result of lower impairments in the Retail Banking segment during the reporting period compared with 1H 2013, translating into Cost of Risk ratio of 1.0% compared to 1.5% during the same period last year. The improvement in cost of credit risk also reflects a new provisioning methodology* the Bank implemented in January 2014. The overall effect of the new methodology was largely immaterial as its positive impact on the Retail Banking cost of credit risk more than offset a minor negative impact on Corporate Banking cost of credit risk.

The Bank's non-performing loans (NPLs), defined as the principal and interest on the overdue loans for more than 90 days and additional potential losses estimated by management, increased by GEL 13.6 million y-o-y to GEL 145.6 million as of 30 June 2014. The Bank's NPLs to total gross loans ratio stood at 3.9% as of 30 June 2014 compared to 3.8% as of 31 March 2014 and 4.1% as of 30 June 2013. The Bank's NPL Coverage ratio stood at 74.5%, compared to 89.1% as of 30 June 2013, the decline predominantly reflecting increased write-offs in the first half of the year. NPL coverage adjusted for the discounted value of collateral stood at a comfortable level of 116.8% as of 30 June 2014.

In 1H 2014, the Bank's net operating income before non-recurring items totalled GEL 131.0 million, up 12.2% y-o-y. The Bank's net non-recurring items for the period increased to GEL 8.2 million primarily attributed to a full impairment of the Bank's legacy investment in BG Bank in Ukraine (approximately GEL 3.8 million) following the current political environment in Ukraine.

As a result, profit before income tax in the first half of 2014 totalled GEL 122.8 million, an increase of GEL 11.5 million, or 10.3%. After income tax expense of GEL 10.9 million, the Bank's 1H 2014 profit for the period stood at GEL 112.0 million, up GEL 16.9 million, or 17.7%, compared to the first half of 2013.

*The new provisioning methodology is based on statistical assessment of Probability of Default (PD) and Loss Given Default (LGD) for each loan type. Management believes that the new methodology will allow better allocation of Cost of Risk between different products. Overall impact of the change in methodology on provisioning rate and on financial statements is not material. The new methodology was developed in consultation with Deloitte, who also provided the respectively integrated IT solution.

Balance Sheet highlights

The Bank's balance sheet remains well capitalised and highly liquid. Over the last year, active liability management efforts aimed at optimising the Bank's Cost of Funding. Most notably, deposit rate cuts throughout the last 18 months have resulted in a reduced share of client deposits in the Bank's liability structure: decreasing from 62.1% to 56.3% from 30 June 2013 to 30 June 2014. Debt securities issued, which primarily includes the 2012 Eurobond issue (US$150 million Eurobond tap issued in November 2013), made up 14.5% of total liabilities compared to 9.3% a year ago. The Cost of Client Deposits, Cost of Amounts due to Credit Institutions and Cost of Debt Securities Issued decreased by 180 bps, 150 bps and 70 bps respectively to record low levels. Consequently, the Group's Cost of Funding decreased 140 bps to a record low of 5.0% for 1H 2014, while Cost of Client Deposits reduced significantly to 4.3% in Q2 2014 from 5.9% in Q2 2013.

On a year-on-year basis, the Bank's assets increased 17.6% to GEL 6,667.7 million on the back of a 17.2% growth of the loan book and a 20.9% increase in liquid assets. On quarter-on-quarter basis, the loan book increased 4.9% supported by the strong growth of both Retail Banking and Corporate Banking loan books, whilst liquid assets decreased 6.2%. The share of loan book in total assets increased from 52.7% to 54.9% on q-o-q basis and liquid assets to total assets decreased from 29.6% to 27.6%.

Total equity attributable to the shareholders of the Group stood at GEL 1,201.7 million, up 14.6% y-o-y but up only 1.6% YTD reflecting the dividend payout in Q2 2014. As a result, the Bank's book value per share on 30 June 2014 stood at GEL 34.95 (US$19.76/GBP11.61), compared to GEL 35.35 (US$20.23/GBP12.17) at 31 March 2014 and GEL 30.90 (US$18.72/GBP12.28) as of 30 June 2013.

Liquidity, Funding and Capital Management

GEL thousands, unless otherwise noted	**Q2 2014**	**Q2 2013**	**Change Y-O-Y**	**Q1 2014**	**Change Q-O-Q**
Amounts due to credit institutions, of which:	1,240,128	1,050,831	18.0%	1,206,818	2.8%
Subordinated debt	*132,800*	*208,236*	*-36.2%*	131,175	*1.2%*
Other amounts due to credit institutions	*1,107,328*	*842,595*	*31.4%*	1,075,643	*2.9%*
Debt securities issued, of which:	786,432	424,854	85.1%	734,771	7.0%
Eurobonds	*740,246*	*424,854*	*74.2%*	718,495	*3.0%*
Other	*46,186*	-	-	16,276	*183.8%*
Customer Funds, of which:	3,074,710	2,850,234	7.9%	3,065,536	0.3%
Client deposits, of which	*3,046,845*	*2,838,153*	*7.4%*	3,037,120	*0.3%*
CDs	*366,212*	*114,086*	*NMF*	273,948	*33.7%*
Promissory notes	*27,865*	*12,081*	*130.7%*	28,416	*-1.9%*
Net Loans / Customer Funds	119.0%	109.6%	9.4%	113.8%	5.2%
Net Loans / Customer Funds + DFIs	100.3%	90.0%	10.3%	96.4%	3.9%
Liquid assets	**1,838,181**	**1,520,214**	**20.9%**	**1,960,973**	**-6.3%**
Liquid assets, GEL	**756,939**	**767,388**	**-1.4%**	**841,827**	**-10.1%**
Liquid assets, FC	**1,081,242**	**752,826**	**43.6%**	**1,119,146**	**-3.4%**
Liquid assets as percent of total assets	27.6%	26.8%	0.8%	29.6%	-2.0%
Liquid assets as percent of total liabilities	34.0%	33.3%	0.7%	36.8%	-2.8%
NBG liquidity ratio	38.1%	44.8%	-6.7%	43.5%	-5.4%
Excess liquidity (NBG) *(excl. additional liquidity requirement for non-resident depositors)*	399,540	491,666	-18.7%	568,459	*29.7%*
Additional liquidity requirement for non-resident depositors	144,417	-	NMF	*129,023*	*11.9%*
Excess liquidity (NBG)	*255,123*	*491,666*	*-48.1%*	*439,436*	*-41.9%*
RATIOS					
Tier I Capital Adequacy Ratio (NBG)	14.8%	15.4%		16.4%	
Total Capital Adequacy Ratio (NBG)	13.8%	16.3%		15.5%	
Tier I Capital Adequacy Ratio (NBG Basel 2/3)	10.8%	N/A		12.9%	
Total Capital Adequacy Ratio (NBG Basel 2/3)	14.0%	N/A		16.2%	
Tier I Capital Adequacy Ratio (BIS)	22.5%	22.9%		23.7%	
Total Capital Adequacy Ratio (BIS)	26.3%	27.8%		27.7%	

The Bank's liquidity position remains well above regulatory requirements at 38.1% vs the NBG requirement of 30%. The NBG excess liquidity decreased by 6.7 percentage points y-o-y to 38.1%. Liquid assets, which primarily comprise cash and cash equivalents, amounts due from credit institutions and investment securities, accounted for 27.6% of total assets and 34.0% of total liabilities. Liquid assets also decreased on a quarter-on-quarter basis by 6.3% to GEL 1,838.2 million. The decrease in liquidity on a q-o-q basis was caused by the healthy growth of the loan book and as well as distribution of dividends in Q2 2014. The pick-up in lending during the period resulted in a Net Loans to Customer Funds ratio of 119.0% compared to 109.6% a year ago and Net Loans to Customer Funds and DFIs ratio stood at a comfortable 100.3% compared to 90.0% in 30 June 2013.

The Bank's Tier I ratio (BIS) stood at a robust 22.5%, compared to 23.7% as of 31 March 2014 and 22.9% as of 30 June 2014. Risk weighted assets increased by 12.7% to GEL 5,373.5 million, reflecting the increase in interest earning assets during the year, while Tier I Capital (BIS) increased by 10.7% to GEL 1,209.8 million but decreased by 1.7% q-o-q as a result of dividend distribution. Tier I Capital Adequacy Ratio calculated according to new regulations stood at 10.8% compared to 13.1% as of 31 December 2013. *For information on the regulatory changes on capital requirements see Annex I on page 44.*

RESULTS BY QUARTER

Revenue

GEL thousands, unless otherwise noted	Q2 2014	Q2 2013	Change Y-O-Y	Q1 2014	Change Q-O-Q
Loans to customers	128,157	130,589	-1.9%	130,414	-1.7%
Investment securities	9,552	9,634	-0.9%	8,519	12.1%
Amounts due from credit institutions	1,467	2,330	-37.0%	2,038	-28.0%
Finance lease receivables	2,238	1,709	31.0%	2,260	-1.0%
Interest income	**141,414**	**144,262**	**-2.0%**	**143,231**	**-1.3%**
Amounts due to customers	(32,603)	(41,620)	-21.7%	(34,384)	-5.2%
Amounts due to credit institutions	(14,726)	(16,421)	-10.3%	(16,244)	-9.3%
Subordinated debt	*(2,633)*	*(4,924)*	*-46.5%*	*(3,356)*	*-21.5%*
Loans and deposits from other banks	*(12,093)*	*(11,497)*	*5.2%*	*(12,888)*	*-6.2%*
Debt securities issued, of which:	(13,531)	(8,214)	64.7%	(12,899)	4.9%
Eurobonds	*(13,233)*	*(8,214)*	*61.1%*	*(12,734)*	*3.9%*
Other	*(298)*	-	-	*(165)*	*80.6%*
Interest expense	**(60,860)**	**(66,255)**	**-8.1%**	**(63,527)**	**-4.2%**
Net interest income before interest rate swaps	**80,554**	**78,007**	**3.3%**	**79,704**	**1.1%**
Net loss from interest rate swaps	-	(109)	-100.0%	-	-
Net interest income	**80,554**	**77,898**	**3.4%**	**79,704**	**1.1%**
Fee and commission income	34,737	28,337	22.6%	28,078	23.7%
Fee and commission expense	(8,610)	(6,558)	31.3%	(8,158)	5.5%
Net fee and commission income	**26,127**	**21,779**	**20.0%**	**19,920**	**31.2%**
Net insurance premiums earned	25,228	32,545	-22.5%	29,390	-14.2%
Net insurance claims incurred	(18,876)	(21,547)	-12.4%	(19,684)	-4.1%
Net insurance revenue	**6,352**	**10,998**	**-42.2%**	**9,706**	**-34.6%**
Healthcare revenue[1]	29,843	14,419	107.0%	22,748	31.2%
Cost of healthcare services	(17,904)	(9,319)	92.1%	(14,951)	19.8%
Net healthcare revenue[1]	**11,939**	**5,100**	**134.1%**	**7,797**	**53.1%**
Real estate income	5,098	1,380	NMF	6,694	-23.8%
Net gain from trading and investment securities	97	1,306	-92.6%	88	10.2%
Net gain from revaluation of investment property	-	4,842	-100.0%	-	-
Net gain from foreign currencies	9,963	12,225	-18.5%	10,889	-8.5%
Other operating income	4,045	4,125	-1.9%	2,539	59.3%
Other operating non-interest income	**19,203**	**23,878**	**-19.6%**	**20,210**	**-5.0%**
Revenue	**144,175**	**139,653**	**3.2%**	**137,337**	**5.0%**

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

In Q2 2014, the Bank posted a record quarterly revenue of GEL 144.2 million, up 3.2% y-o-y and 5.0% q-o-q. The robust revenue growth was supported by the Bank's non-banking businesses particularly healthcare and real estate businesses, which contributed GEL 11.9 million and GEL 5.1 million, respectively to 1H 2014 revenue compared to GEL 5.1 million and GEL 1.4 million, respectively in 1H 2013.

Net interest income increased 3.4% y-o-y to GEL 80.6 million supported by an 8.1% decrease in interest expense following active liability management efforts, which significantly drove down the Cost of Funding, by 140 bps y-o-y to 5.0% in Q2 2014 and Cost of Client Deposits, down 180 bps y-o-y to 4.4%. The sharp decline in liability costs translated into a 21.7% y-o-y decrease in interest expense on amounts due to customers and a 10.3% y-o-y decrease in interest expense on amounts due to credit institutions. Notably, average client deposits in Q2 2014 increased 7.6% compared to Q2 2013 indicating that significant deposit rate cuts during the period have not compromised the Bank's deposit franchise.

Net fee and commission income increased to GEL 26.1 million, up 20.0% y-o-y and 31.2% q-o-q, as a result of an improving operating environment and increased business activity during the reporting period, as well as increased settlement operations, driven by the expansion of the Bank's Express Banking service through which the Bank delivers cost effective self-service transactional and remote banking facilities. Fee and commission expense increased 31.3% y-o-y to GEL 8.6 million driven by costs associated with client acquisition within its Express Banking service and card fees. The year-on-year growth is also attributed to the outsourcing to the Bank's cash collection service, the cost of which (in the amount of GEL 0.5 million in Q2 2014) effectively shifted from salaries and other employee benefits to fee and commission expense. On a quarterly basis, the growth of fee and commission income (up 23.7% y-o-y) far exceeded the growth of fee and commission expense (up 5.5% y-o-y) reversing the trend in the last several quarters when expenses grew at a faster rate than income as we expanded Express Banking footprint across Georgia.

Net Interest Margin

GEL thousands, unless otherwise noted	**Q2 2014**	**Q2 2013**	**Change Y-O-Y**	**Q1 2014**	**Change Q-O-Q**
Net interest income	80,554	77,898	3.4%	79,704	1.1%
Net Interest Margin	**7.3%**	**7.9%**		**7.4%**	
Average interest earning assets[1]	4,478,492	3,959,352	13.1%	4,413,089	1.5%
Average interest bearing liabilities[1]	5,034,751	4,266,321	18.0%	5,012,699	0.4%
Average loans, currency blended	3,537,067	3,026,389	16.9%	3,504,591	0.9%
Average loans, GEL	1,130,099	915,064	23.5%	1,159,243	-2.5%
Average loans, FC	2,406,968	2,111,325	14.0%	2,345,348	2.6%
Average client deposits, currency blended	3,039,335	2,823,491	7.6%	3,023,361	0.5%
Average client deposits, GEL	858,613	991,764	-13.4%	885,467	-3.0%
Average client deposits, FC	2,180,722	1,831,727	19.1%	2,137,894	2.0%
Average liquid assets, currency blended	1,921,384	1,578,938	21.7%	1,948,419	-1.4%
Average liquid assets, GEL	817,277	792,373	3.9%	802,349	1.9%
Average liquid assets, FC	1,104,107	786,565	39.3%	1,146,070	-3.7%
Excess liquidity (NBG)[2] *(excl. additional liquidity requirement for non-resident depositors)*	399,540	491,666	-18.7%	568,459	*29.7%*
Additional liquidity requirement for non-resident depositors	144,417	-	NMF	*129,023*	*11.9%*
Excess liquidity (NBG)[2]	*255,123*	*491,666*	*-48.1%*	*439,436*	*-41.9%*
Liquid assets yield, currency blended	2.3%	3.0%		2.2%	
Liquid assets yield, GEL	*5.0%*	*5.1%*		*4.7%*	
Liquid assets yield, FC	*0.4%*	*0.7%*		*0.5%*	
Loan yield, total	14.5%	17.0%		14.9%	
Loan yield, GEL	*19.2%*	*23.0%*		*19.8%*	
Loan yield, FC	*12.0%*	*14.2%*		*12.3%*	
Cost of funds, total	4.8%	6.2%		5.1%	
Cost of funds, GEL	*4.0%*	*5.5%*		*4.2%*	
Cost of funds, FC	*5.1%*	*6.5%*		*5.5%*	

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

The Q2 2013 NIM declined by 60 bps y-o-y to 7.3% in Q2 2014 as a result of a 13.1% growth in average interest earning assets which far outweighed a 3.4% increase in net interest income. Average liquid assets increased 21.7%, with a particularly large increase in foreign currency liquid assets which have been yielding 0.4% on average in Q2 2014. The 140 bps y-o-y decline in Cost of Funding and the increase of the share of higher-yielding Retail Banking loans in the total loan book supported the NIM at 7.3% during the quarter.

On a quarter-on-quarter basis, however, the NIM stayed largely flat as net interest income increased 1.1% q-o-q compared to a 1.5% increase in average interest-earning assets. Average liquid assets declined 1.4% and the liquid asset yields stayed largely flat supporting the NIM on a q-o-q basis.

Operating income before non-recurring items, cost of credit risk, profit for the period

GEL thousands, unless otherwise noted	**Q2 2014**	**Q2 2013**	**Change Y-O-Y**	**Q1 2014**	**Change Q-O-Q**
Salaries and other employee benefits	(37,251)	(32,575)	14.4%	(35,808)	4.0%
General and administrative expenses	(19,198)	(15,707)	22.2%	(15,490)	23.9%
Depreciation and amortisation expenses	(6,932)	(6,747)	2.7%	(6,874)	0.8%
Other operating expenses	(889)	(664)	33.9%	(871)	2.1%
Operating expenses	**(64,270)**	**(55,693)**	**15.4%**	**(59,043)**	**8.9%**
Operating income before cost of credit risk	**79,905**	**83,960**	**-4.8%**	**78,294**	**2.1%**
Cost of credit risk	**(13,847)**	**(18,984)**	**-27.1%**	**(13,316)**	**4.0%**
Operating income before net non-recurring items	**66,058**	**64,976**	**1.7%**	**64,978**	**1.7%**
Net non-recurring items	(7,077)	(4,088)	73.1%	(1,120)	NMF
Profit before income tax expense	**58,981**	**60,888**	**-3.1%**	**63,858**	-7.6%
Income tax expense	(663)	(7,783)	-91.5%	(10,194)	-93.5%
Profit	**58,318**	**53,105**	**9.8%**	**53,664**	**8.7%**

In Q2 2014, the Bank's operating expenses totalled GEL 64.3 million up 15.4% y-o-y, driven by a 14.4% increase in salaries and other employee benefits to GEL 37.3 million and a 22.2% increase in general and administrative expenses to GEL 19.2 million. The increase in expenses on year-on-year basis was a result of an increase in costs associated with the Bank's non-banking businesses, particularly its healthcare and real estate businesses. The Bank's healthcare business significantly increased its headcount following several acquisitions, while the respective post-acquisition synergies have not yet fully been realised. Operating expenses were also pushed higher in Q2 2014 as a result of the increase in the number of senior managers eligible for the Group's share based compensation (non-cash bonus), which translated into the increase in salaries and employee benefits, albeit flat standalone headcount of the Bank on year-on-year basis. The new initiatives within our Investment Management business aimed at expanding our fee generating businesses, as well as our expanded Corporate Social Responsibility programme, also contributed to the increased operating expenses. As a result, operating income before cost of credit risk declined 4.8% y-o-y to GEL 79.9 million but increased 2.1% q-o-q.

Cost of credit risk for the quarter declined 27.1% y-o-y and increased 4.0% q-o-q to GEL 13.8 million. The year-on-year improvement of cost of credit risk can be attributed to the more favourable operating environment in 2014 and changes in the provisioning methodology. The Cost of Risk ratio stood at 0.9% compared to 1.5% in Q2 2013.

As a result of the foregoing, in Q2 2014, the Bank's operating income before non-recurring items totalled GEL 66.1 million, up 1.7% y-o-y and q-o-q. The Bank's net non-recurring items totalled GEL 7.1 million, up 73.1% y-o-y primarily as a result of the full impairment of the Bank's legacy investment in BG Bank, Ukraine (GEL 3.8 million). Profit before income tax in Q2 2014 reached GEL 59.0 million, down 3.1% y-o-y. After income tax expense of GEL 0.6 million, the Bank's Q2 2014 profit for the period stood at GEL 58.3 million, up 9.8% y-o-y and up 8.7% q-o-q. The decline in income tax expense for the period was due to correction of deferred income tax liability from previous reporting periods.

SEGMENT RESULTS

Strategic Businesses Segment Result Discussion

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

Retail Banking (RB)

GEL thousands, unless otherwise noted	1H 2014	1H 2013	Change Y-O-Y
INCOME STATEMENT HIGHLIGHTS			
Net interest income	100,220	91,064	10.1%
Net fee and commission income	26,560	25,322	4.9%
Net gain from foreign currencies	8,619	7,062	22.0%
Other operating non-interest income	1,863	2,518	-26.0%
Revenue	**137,262**	**125,966**	**9.0%**
Operating expenses	(61,967)	(60,375)	2.6%
Operating income before cost of credit risk	**75,295**	**65,591**	**14.8%**
Cost of credit risk	(342)	(17,470)	-98.0%
Net non-recurring items	(4,767)	(540)	NMF
Profit before income tax expense	**70,186**	**47,581**	**47.5%**
Income tax expense	(6,258)	(6,016)	4.0%
Profit	**63,928**	**41,565**	**53.8%**
BALANCE SHEET HIGHLIGHTS			
Net loans, standalone, Currency Blended	1,754,248	1,445,324	21.4%
Net loans, standalone, GEL	941,327	767,687	22.6%
Net loans, standalone, FC	812,921	677,637	20.0%
Client deposits, standalone, Currency Blended	1,134,186	925,779	22.5%
Client deposits, standalone, GEL	372,846	288,986	29.0%
Client deposits, standalone, FC	761,340	636,793	19.6%
Time deposits, standalone, Currency Blended	689,776	600,466	14.9%
Time deposits, standalone, GEL	169,414	134,256	26.2%
Time deposits, standalone, FC	520,362	466,210	11.6%
Current accounts and demand deposits, standalone, Currency Blended	444,410	325,313	36.6%
Current accounts and demand deposits, standalone, GEL	203,432	154,730	31.5%
Current accounts and demand deposits, standalone, FC	240,978	170,583	41.3%
KEY RATIOS			
Net interest margin, currency blended	*9.9%*	*10.2%*	
Loan yield, currency blended	*17.8%*	*20.5%*	
Loan yield, GEL	*21.5%*	*26.4%*	
Loan yield, FC	*12.9%*	*14.1%*	
Cost of deposits, currency blended	*4.0%*	*5.7%*	
Cost of deposits, GEL	*4.5%*	*5.5%*	
Cost of deposits, FC	*3.8%*	*5.8%*	
Cost of time deposits, currency blended	*5.9%*	*8.0%*	
Cost of time deposits, GEL	*8.5%*	*10.4%*	
Cost of time deposits, FC	*5.1%*	*7.4%*	
Current accounts and demand deposits, currency blended	*1.6%*	*4.1%*	
Current accounts and demand deposits, GEL	*1.9%*	*4.9%*	
Current accounts and demand deposits, FC	*1.3%*	*2.9%*	
Cost / income ratio	*45.1%*	*47.9%*	

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

Retail Banking posted robust 1H 2014 results, driven by strong Retail Banking net loan book growth in Q2 2014, which resulted in net interest income increasing 10.1% y-o-y to GEL 100.2 million. Net fee and commission income growth of 4.9% to GEL 26.6 million was attributed to an increase in the card transactions of Retail Banking clients and the commission income of the Bank and its card processing subsidiary, Georgian Card. Net gains from foreign currencies also increased by 22.0% to GEL 8.6 million, which can be attributed to increase foreign currency transactions by Retail Banking Clients. As a result Revenue increased 9.0% to reach GEL 137.3 million in 1H 2014.

Operating expenses increased by 2.6%, or at a much slower rate than revenue growth rate, reflecting cost efficiencies achieved largely due to the success of the Express Banking footprint. This is one of the main contributors to the Bank continuously improving efficiency attributed to the shift to technology-intensive transactional banking through Express Banking services. Cost of credit risk decreased from GEL 17.5 million to GEL 0.3 million as a result of lower impairments for the segment during the period as well as the effects of new provisioning methodology (*see page 71 for more details*) which had a positive impact on Retail Banking cost of credit risk. As a result, Retail Banking profit reached GEL 63.9 million, up by GEL 22.4 million or by 53.8% y-o-y.

The strong profitability of the Retail Banking segment can be largely attributed to the success of our Express Banking strategy, which was launched over 18 months ago aimed at attracting the unbanked portion of the population and facilitate the transition to transactional banking to leverage the Bank's leadership in payment systems on the Georgian market. Over the one year period, Retail Banking added more than 160,000 clients mostly Express banking clients bringing with them the cheapest source of funding for the Bank current accounts and demand deposits, up 36.6% y-o-y to GEL 444.4 million supporting the 22.5% growth in total Retail Banking deposits to GEL 1,134.2 million. The cost of current accounts and demand deposits for the Retail Banking segment decreased 250 bps y-o-y to 1.6% for 1H 2014. The cost of time deposits for the reporting period decreased 210 bps y-o-y to 5.9%. The Retail Banking loan book increased by 21.4% to GEL 1,754.2 million, driven by both GEL denominated and foreign currency denominated loan book growth (22.6% and 20.0%, respectively). In line with the market trends across the banking sector, the Retail Banking Loan Yield declined by 270 bps y-o-y to 17.8%, putting downward pressure on the Retail Banking NIM, which nonetheless remained at a healthy 9.9% in 1H 2014 and supported the NIM of the Group on the back of the solid Retail Banking loan book growth.

Highlights

- Number of active internet and mobile banking clients increased from 52,099 to 80,895. Number of transactions increased from 798,798 to 1,433,490.
- Increased number of Express Pay terminals to 2,038 from 985 in 1H 2014. Express Pay terminals are used for bank transactions such as credit card and consumer loan payments, utility bill payments and mobile telephone top-ups.
- Stepped up the issuance of Express cards, first contactless cards in Georgia, which also serve as a metro and bus transport payment card and offer loyalty programmes to clients.
- Since the launch on 5 September 2012, 613,159 Express cards have been issued in essence replacing pre-paid metro cards in circulation since July 2009.
- Issued 303,407 debit cards, including Express cards, in 1H 2014 bringing the total debit cards outstanding to 957,386 up 20.0% y-o-y.
- Issued 17,233 credit cards of which 13,173 were American Express cards in 1H 2014. A total of 217,513 American Express cards have been issued since the launch in November 2009. The total number of outstanding credit cards amounted to 117,748 (of which 110,042 were American Express Cards).
- Outstanding number of Retail Banking clients totalled 1,336,629 up 14% y-o-y and by 3.9% (50,672 clients) q-o-q.
- Acquired 626 new clients in the Solo business line, the Bank's mass affluent sub-brand, in 1H 2014. As of 30 June 2014, the number of Solo clients reached 7,089.
- Increased the number of corporate clients using the Bank's payroll services from 3,651 as of 30 June 2013 to 4,080 as of 30 June 2014. As of the period end, the number of individual clients serviced through the corporate payroll programmes administered by the Bank amounted to 232,163, compared to 227,005 as of 30 June 2013.

- Increased Point of Sales (POS) footprint: as of 30 June 2014, 311 desks at 893 contracted merchants, up from 238 desks and 592 merchants as of 30 June 2013. GEL 61.3 million POS loans were issued in 1H 2014, compared to GEL 41.0 million during the same period last year. POS loans outstanding amounted to GEL 60.6 million, up 52.3% over a one year period.
- POS terminals outstanding reached 5,689, up 33.6% y-o-y. The volume of transactions through the Bank's POS terminals grew 42.0% y-o-y to GEL 265.9 million, while the number of POS transactions increased by 4.1 million y-o-y from 3.0 million in 1H 2013 to 7.1 million in H1 2014.
- Added a new product on the market, whereby a client can activate a pre-approved overdraft limit upon making a purchase through any Bank of Georgia POS terminal. Since the launch in March 2013, 7,428 pre-approved POS loans were issued, worth GEL 5.5 million.
- Consumer loan originations of GEL 275.7 million resulted in consumer loans outstanding totalling GEL 445.8 million as of 30 June 2014, up 13.7% y-o-y and up 6.6% year-to-date.
- Micro loan originations of GEL 223.1 million resulted in micro loans outstanding totalling GEL 375.5 million as of 30 June 2014, up 24.7% y-o-y and up 11.3% year-to-date.
- SME loan originations of GEL 120.8 million resulted in SME loans outstanding totalling GEL 189.8 million as of 30 June 2014, up 61% y-o-y and up 18.9% year-to-date.
- Mortgage loans originations of GEL 129.5 million resulted in mortgage loans outstanding of GEL 489.5 million as of 30 June 2014, up 25.9% y-o-y and 10.9% year-to-date.
- RB loan yield amounted to 17.7% in Q2 2014 (20.6% in Q2 2013) and RB deposit cost declined to 3.9% in Q2 2014 (5.4% in Q2 2013).

Corporate Banking (CB)

GEL thousands, unless otherwise noted	1H 2014	1H 2013	Change Y-O-Y
INCOME STATEMENT HIGHLIGHTS			
Net interest income	48,511	50,460	-3.9%
Net fee and commission income	12,014	14,372	-16.4%
Net gain from foreign currencies	11,542	12,536	-7.9%
Other operating non-interest income	1,531	3,152	-51.4%
Revenue	**73,598**	**80,520**	**-8.6%**
Operating expenses	(23,954)	(20,751)	15.4%
Operating income before cost of credit risk	**49,644**	**59,769**	**-16.9%**
Cost of credit risk	(23,656)	(17,191)	37.6%
Net non-recurring items	(2,453)	(1,016)	141.2%
Profit before income tax expense	**23,535**	**41,562**	**-43.4%**
Income tax expense	(2,320)	(5,973)	-61.2%
Profit	**21,215**	**35,589**	**-40.4%**
BALANCE SHEET HIGHLIGHTS			
Letters of credit and guarantees, standalone*	499,362	471,802	5.8%
Net loans, standalone, currency blended	1,802,752	1,668,041	8.1%
Net loans, standalone, GEL	268,270	242,205	10.8%
Net loans, standalone, FC	1,534,482	1,425,836	7.6%
Client deposits, standalone, currency blended	1,118,359	1,234,963	-9.4%
Client deposits, standalone, GEL	465,636	680,022	-31.5%
Client deposits, standalone, FC	652,723	554,941	17.6%
Time deposits, standalone, currency blended	264,479	317,839	-16.8%
Time deposits, standalone, GEL	105,742	50,102	111.1%
Time deposits, standalone, FC	158,737	267,737	-40.7%
Current accounts and demand deposits, standalone, currency blended	853,880	917,124	-6.9%
Current accounts and demand deposits, standalone, GEL	359,894	629,920	-42.9%
Current accounts and demand deposits, standalone, FC	493,986	287,204	72.0%
RATIOS			
Net interest margin, currency blended	*4.3%*	*5.1%*	
Loan yield, currency blended	*10.8%*	*13.2%*	
Loan yield, GEL	*10.8%*	*13.1%*	
Loan yield, FC	*10.8%*	*13.3%*	
Cost of deposits, currency blended	*3.0%*	*5.5%*	
Cost of deposits, GEL	*3.2%*	*5.9%*	
Cost of deposits, FC	*2.8%*	*5.0%*	
Cost of time deposits, currency blended	*6.5%*	*7.6%*	
Cost of time deposits, GEL	*8.1%*	*9.9%*	
Cost of time deposits, FC	*6.0%*	*7.2%*	
Current accounts and demand deposits, currency blended	*1.7%*	*4.8%*	
Current accounts and demand deposits, GEL	*2.3%*	*5.6%*	
Current accounts and demand deposits, FC	*1.0%*	*2.9%*	
Cost / income ratio	*32.5%*	*25.8%*	

*Off-balance sheet items

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

Revenue for the Corporate Banking segment decreased 8.6% to GEL 73.6 million as a result of a 3.9% y-o-y decline of net interest income to GEL 48.5 million and a 16.4% decrease in net fee and commission income to GEL 12.0 million. Net gain from foreign currencies also decreased 7.9% to GEL 11.5 million.

Cost of credit risk rose to GEL 23.7 million up 37.6% y-o-y, which reflected the default of a borrower in the agricultural sector in Q1 2014 as well as slight negative impact of the new provisioning methodology (see page 71 for more information).

The decreases were driven by the competitive and liquidity environment in the Georgia banking market discussed above, which resulted in increasing pressure on NIM. The Corporate Banking loan book increased 8.1% y-o-y to GEL 1,802.8 million, with growth picking up in Q2 2014 particularly in the GEL denominated portfolio. In line with market trends, the CB Loan Yield decreased 240 bps to 10.8%, which compares to 250 bps reduction in CB Cost of Client Deposits The significant reduction in CB deposit rates led to a targeted outflow of more costly GEL Denominated corporate client deposits, which declined by 31.5% y-o-y and was the main contributor to the 9.4% y-o-y reduction of CB client deposits by the end of the reporting period. As a result of the foregoing, the NIM decreased 80 bps year-on-year to 4.3%.

Highlights

- Closed a US$25 million one-year Trade Finance Club Facility with Citi, the first Trade Finance Club facility arranged by Citi for a Georgian bank
- Signed a US$20 million trade facility loan agreement with Turk Eximbank to extend financing to Georgian companies that import Turkish consumer and capital goods in Georgia.

Investment Management

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. Investment Management is expected to boost the Group's fee generating capabilities, and to facilitate the expansion of the Group's client base and product penetration by means of offerings of Investment Management products. As its function has developed, it has become clear that presentation of the segment profit and loss statement for IM segment is no longer meaningful. Starting from the Q1 2014 reporting period, we are reporting operating highlights and key financial metrics for the Investment Management business.

GEL thousands, unless otherwise noted	1H 2014	1H 2013	Change Y-O-Y
BALANCE SHEET HIGHLIGHTS			
Client deposits, standalone, currency blended	736,074	624,207	17.9%
Client deposits, standalone, GEL	23,879	22,666	5.4%
Client deposits, standalone, FC	712,195	601,541	18.4%
Time deposits, standalone, currency blended	496,253	469,756	5.6%
Time deposits, standalone, GEL	14,102	15,256	-7.6%
Time deposits, standalone, FC	482,151	454,500	6.1%
Current accounts and demand deposits, standalone, currency blended	239,821	154,451	55.3%
Current accounts and demand deposits, standalone, GEL	9,777	7,410	31.9%
Current accounts and demand deposits, standalone, FC	230,044	147,041	56.4%
RATIOS			
Cost of deposits, currency blended	*6.5%*	*8.1%*	
Cost of deposits, GEL	*6.7%*	*7.5%*	
Cost of deposits, FC	*6.5%*	*8.1%*	
Cost of time deposits, currency blended	*8.0%*	*9.4%*	
Cost of time deposits, GEL	*9.3%*	*10.7%*	
Cost of time deposits, FC	*8.0%*	*9.4%*	
Current accounts and demand deposits, currency blended	*2.4%*	*4.3%*	
Current accounts and demand deposits, GEL	*1.4%*	*3.1%*	
Current accounts and demand deposits, FC	*2.4%*	*4.4%*	

Investment Management deposits increased 17.9% y-o-y to GEL 736.1 million on the back of a 160 bps decline in Cost of Client deposits to 6.5% for the Investment Management segment. The growth in deposits was fuelled by strong growth of current accounts and demand deposits, which increased 55.3% y-o-y in spite of a 190 bps y-o-y decrease in cost of current accounts and demand deposits.

Highlights

- As of 30 June 2014, the amount of the Bank's CDs issued to Investment Management clients reached GEL 314.0 million.
- Successfully placed US$ 8 million, EUR 8 million and GBP 5 million Euroclearable CDs
- The Investment Management business served over 1,400 clients from 68 countries as of 30 June 2014. Client funds attracted by Investment Management have grown at a compound annual growth rate (CAGR) of 46.8% over the last five year period, to GEL 736.1 million as of 30 June 2014.
- Since its launch in June 2012, Bank of Georgia Research has initiated research coverage of the Georgian economy and Azeri economies, including a report analysing the impact of Russia-Ukraine standoff on the Georgian economy, the Georgian Retail Real Estate Market, the Georgian Wine Sector, Georgian Agricultural Sector, Georgian Electricity Sector, Georgian Oil and Gas Corporation, Georgian Railway, and has issued notes on Georgian State Budget and the Tourism Sector as of the date of this report.
- Executed its first sizeable M&A deal and received a success fee in the amount of US$1.9 million
- Within the Hydro Private Equity fund, actively moving forward with the detailed feasibility study on the first hydropower plant in Georgia with the help of several specialised contractors. Preparatory works have started in the spring this year and are scheduled to be completed late fall/early winter of 2014. The feasibility study is carried out and financed jointly by Bank of Georgia Group and rpGlobal – the Bank's Austrian partners in Hydro development (total cost of feasibility is approximately US$1.3 million)

Insurance and Healthcare (Aldagi)

As of 30 June 2014, the Group's insurance and healthcare business comprised the Bank's wholly-owned subsidiary, Aldagi, Georgia's leading life and non-life insurance provider and largest healthcare services operator. Prior to the reorganisation of Aldagi as announced in August 2014 *(see details below)*, Aldagi Insurance consisted of a property and casualty (P&C) insurance business and a health insurance business covering more than 610,000 insureds in the country. Aldagi held a market share of 37.6% in health insurance and 37.8% in P&C insurance as of 31 March 2014, based on gross insurance premium revenue as reported by the Insurance State Supervision Service of Georgia. Aldagi's healthcare business, with 36 hospitals and clinics and a total of 1,892 hospital beds, with facilities located across Georgia, enjoys an unmatched regional coverage, reaching more than three million people, or approximately two-thirds of Georgia's population. Through its vertically integrated model, Aldagi operated a highly integrated patient capture business model with significant synergies between its healthcare services and health insurance operations. Aldagi insurance lines are synergistic to the Group's businesses. Aldagi P&C insurance cross-sells its insurance products with the Bank's Retail Banking, Corporate Banking and Investment Management products. Aldagi health insurance plays a feeder role in driving patient volumes to its healthcare service business.

On 1 August 2014, the Group announced the split of Aldagi into two separate business lines, and the respective rebranding of the new business entities. One business line is a pure play healthcare business, that will provide healthcare services (through Evex Medical Corporation, (Evex)) and health insurance products (through Imedi L) in Georgia. The Group expects to establish JSC Georgia Healthcare Group plc (GHG) which will ultimately own the healthcare business. The second business line is a P&C insurance business through JSC Insurance Company Aldagi that will continue providing life and non-life business insurance products and services in Georgia, retaining the brand name of Aldagi. The segmental reporting as presented in these financial results for 1H 2014 have not been altered as a consequence of this reorganisation.

Insurance and Healthcare (Aldagi) segment results

	1H 2014				1H 2013				Change, Y-O-Y		
GEL thousands, unless otherwise noted	**Insurance**	**Healthcare**	**Elimination**	**Total**	**Insurance**	**Healthcare**	**Elimination**	**Total**	**Insurance**	**Healthcare**	**Total**
Gross premiums written	**53,676**	**-**	**-**	**53,676**	**64,588**	**-**	**-**	**64,588**	**-16.9%**	**-**	**-16.9%**
Net interest income (expenses)	395	(6,142)	-	(5,747)	1,357	(6,267)	-	(4,910)	-70.9%	-2.0%	17.0%
Net fee and commission income (expenses)	147	(86)	-	61	87	(188)	-	(101)	69.0%	-54.3%	NMF
Net insurance revenue, of which:	13,177	-	4,329	17,506	17,670	-	6,320	23,990	-25.4%	-	-27.0%
Net insurance premiums earned	*56,221*	*-*	*(154)*	*56,067*	*65,713*	*-*	*(158)*	*65,555*	*-14.4%*	*-*	*-14.5%*
Net insurance claims incurred	*(43,044)*	*-*	*4,483*	*(38,561)*	*(48,043)*	*-*	*6,478*	*(41,565)*	*-10.4%*	*-*	*-7.2%*
Net healthcare revenue (loss), of which:	-	24,219	(4,483)	19,736	-	15,469	(6,477)	8,992	-	56.6%	119.5%
Healthcare revenue	*-*	*65,882*	*(13,291)*	*52,591*	*-*	*45,020*	*(17,530)*	*27,490*	*-*	*46.3%*	*91.3%*
Cost of healthcare services	*-*	*(41,663)*	*8,808*	*(32,855)*	*-*	*(29,551)*	*11,053*	*(18,498)*	*-*	*41.0%*	*77.6%*
Net gain (loss) from foreign currencies	288	(2,027)	-	(1,739)	(205)	238	-	33	NMF	NMF	NMF
Other operating non-interest income	290	208	-	498	393	862	-	1,255	-26.2%	-75.9%	-60.3%
Revenue	**14,297**	**16,172**	**(154)**	**30,315**	**19,302**	**10,114**	**(157)**	**29,259**	**-25.9%**	**59.9%**	**3.6%**
Operating expenses	(7,782)	(10,061)	154	(17,689)	(8,032)	(6,558)	157	(14,433)	-3.1%	53.4%	22.6%
Operating income before cost of credit risk	**6,515**	**6,111**	**-**	**12,626**	**11,270**	**3,556**	**-**	**14,826**	**-42.2%**	**71.9%**	**-14.8%**
Cost of credit risk	(590)	(820)	-	(1,410)	(631)	(789)	-	(1,420)	-6.5%	3.9%	-0.7%
Net non-recurring items	-	1,375	-	1,375	-	-	-	-	-	-	-
Profit before income tax expense	**5,925**	**6,666**	**-**	**12,591**	**10,639**	**2,767**	**-**	**13,406**	**-44.3%**	**141.0%**	**-6.1%**
Income tax expense	(986)	(506)	-	(1,492)	(1,733)	(224)	-	(1,957)	-43.1%	125.9%	-23.8%
Profit	**4,939**	**6,160**	**-**	**11,099**	**8,906**	**2,543**	**-**	**11,449**	**-44.5%**	**142.3%**	**-3.0%**
Cost / income ratio	*54.4%*	*62.2%*	*-*	*58.4%*	*41.6%*	*64.9%*	*-*	*49.3%*	*12.8%*	*-2.7%*	*9.1%*

Aldagi's revenue increased from GEL 29.3 million in 1H 2013 to GEL 30.3 million in 1H 2014, reflecting the strong performance of its healthcare business, which benefited from a number of successful acquisitions in the first half of

2014, as well as organic growth. The healthcare business also benefited from the introduction of the universal healthcare reform by the government in 2013, which, once fully implemented by the end of 2014 (as expected), will result in an extended Government-funded basic healthcare coverage to Georgia's entire population. Since the commencement of the reform, Government expenditures on health have increased by 74% to GEL 634 million since 2012[1]. Benefiting from the growth of healthcare expenditures in the country, the revenue of Aldagi Healthcare, the largest healthcare provider, increased by 59.9% y-o-y to GEL 16.2 million in 1H 2014. The revenue growth rate, as stated above, compared favourably to the 53.4% y-o-y growth in operating expenses, reflecting the successful reorganisation and integration of the newly acquired hospitals *(see more details on the acquisitions under the Aldagi group standalone discussion)*. Aldagi's management expects to achieve further cost synergies from the recent acquisitions stemming from centralisation of back office functions of the hospital businesses and centralisation of its procurement policy.

The Government's new universal healthcare programme, also entails the consolidation of the administration of the Government funded general coverage healthcare programmes under one umbrella, including those existing programmes previously administered by private insurance companies. Consequently, as anticipated, Aldagi's gross premiums written decreased by 16.9% y-o-y to GEL 53.7 million, and net insurance revenue decreased by 25.4% y-o-y to GEL 13.2 million. Operating expenses for the insurance business decreased 3.1% y-o-y to GEL 7.8 million in 1H 2014. While the reduction in premiums written will continue as the roll out of the government's healthcare programme is completed as anticipated this year (reduction in net insurance premiums due to the handover earned is expected to total up to GEL10.9 million in 2H 2014), Aldagi management expects that the future health insurance revenue loss will be partially offset by premiums on new complementary health insurance products that it is beginning to sell.

As a result, operating income before income tax expense for the Group's healthcare business stood at GEL 6.1 million in 1H 2014 compared to GEL 3.6 million in 1H 2013. For the Group's insurance business, operating income before income tax expense stood at GEL 5.9 million compared to GEL 10.6 million in 1H 2013. After income tax expense, profit for insurance and healthcare businesses stood at GEL 4.9 million and GEL 6.2 million respectively.

Aldagi group standalone results

For the purposes of the results discussion below, Aldagi group refers to the P&C insurance and pure-play healthcare businesses which includes healthcare services and health insurance services) The results are based on management accounts before applying inter-company eliminations with the Bank.

Income statement, Aldagi group standalone

	1H 2014				1H 2013				Change, Y-o-Y		
GEL thousands, unless otherwise noted	**Healthcare business**	**P&C insurance business**	**Elimination**	**Aldagi group**	**Healthcare business**	**P&C insurance business**	**Elimination**	**Aldagi group**	**Healthcare business**	**P&C insurance business**	**Aldagi group**
Revenue[2]	**91,842**	**13,652**	**(88)**	**105,406**	**76,445**	**13,023**	**(64)**	**89,404**	**20.1%**	**4.8%**	**17.9%**
COGS[3], insurance claims expense	**(61,228)**	**(5,140)**	**-**	**(66,368)**	**(50,332)**	**(4,491)**	**-**	**(54,823)**	**21.6%**	**14.5%**	**21.1%**
Gross profit	**30,614**	**8,512**	**(88)**	**39,038**	**26,113**	**8,532**	**(64)**	**34,581**	**17.2%**	**-0.2%**	**12.9%**
Selling, general and administrative	(13,931)	(3,643)	88	(17,486)	(10,765)	(3,770)	64	(14,471)	29.4%	-3.4%	20.8%
Other operating income	982	5	-	987	916	253	-	1,169	7.2%	-98.0%	-15.6%
EBITDA	**17,665**	**4,874**	**-**	**22,539**	**16,264**	**5,015**	**-**	**21,279**	**8.6%**	**-2.8%**	**5.9%**
Depreciation	(3,642)	(264)	-	(3,906)	(2,693)	(234)	-	(2,927)	35.2%	12.8%	33.4%
Net interest income	(5,862)	100	-	(5,762)	(4,887)	(141)	-	(5,028)	20.0%	-	14.6%
(Losses) gains on currency exchange	(2,723)	54	-	(2,669)	(29)	(17)	-	(46)	NMF	NMF	NMF
Net non-recurring items	1,314	139	-	1,453	57	70	-	127	NMF	98.6%	NMF
Profit before income tax	**6,752**	**4,903**	**-**	**11,655**	**8,712**	**4,693**	**-**	**13,405**	**-22.5%**	**4.5%**	**-13.1%**
Income tax expense	(605)	(823)	-	(1,428)	(1,188)	(770)	-	(1,958)	-49.1%	6.9%	-27.1%
Profit	**6,147**	**4,080**	**-**	**10,227**	**7,524**	**3,923**	**-**	**11,447**	**-18.3%**	**4.0%**	**-10.7%**
Attributable to:											
- shareholders of the Company	4,756	4,080	-	8,836	5,418	3,923	-	9,341	-12.2%	4.0%	-5.4%
- minority interest	1,391	-	-	1,391	2,106	-	-	2,106	-34.0%	-	-34.0%

[1]Ministry of Labor, Health and Social Affairs: http://www.moh.gov.ge/index.php?lang_id=GEO&sec_id=29&info_id=2024

[2]Insurance revenue is calculated as gross insurance premium revenue less premiums ceded to reinsurers and commission expenses

[3]Cost of goods sold

The discussion below refers to the Aldagi group standalone numbers.

Aldagi group standalone revenue consists of revenue from healthcare business, which includes revenue from healthcare services (currently through Evex) and revenue from health insurance (currently Imedi L) and revenue from P&C insurance (currently through Aldagi). The Aldagi group revenue grew by 17.9% y-o-y from GEL 89.4 million in 1H 2013 to GEL 105.4 million in 1H 2014 primarily due to the robust performance of healthcare business that was driven by organic growth and acquisitions. In the second half 2013 and beginning of 2014, Aldagi acquired five hospitals, which enabled Aldagi to increase its healthcare revenues and tap new market segments. Aldagi also acquired one hospital property with an estimated total development capacity of 300 beds. As of 30 June 2014, Aldagi was the largest healthcare provider in Georgia (currently under the brand name Evex), with ten referral (multi-profile) hospitals, two specialty hospitals, 19 community hospitals, which have a total of 1,892 beds and five ambulatory clinics.

Aldagi group revenue by business lines

GEL thousands, unless otherwise noted	1H 2014	1H 2013	Change, Y-o-Y
Healthcare business revenue	**91,842**	**76,445**	**20.1%**
Revenue from healthcare services rendered	***62,718***	***41,443***	***51.3%***
Referral and specialty hospitals	51,620	27,594	87.1%
Community hospitals	5,971	5,497	8.6%
Ambulatory clinics	2,265	2,574	-12.0%
Ambulance and rural primary care	2,862	5,778	-50.5%
Revenue from health insurance	***42,569***	***52,690***	***-19.2%***
State funded health insurance programs	22,281	31,621	-29.5%
Private health insurance products	20,288	21,069	-3.7%
Intercompany eliminations	***-13,445***	***-17,688***	***-24.0%***
P&C insurance business revenue	**13,652**	**13,023**	**4.8%**
Intercompany eliminations	-88	-64	38.1%
Total Aldagi group revenue	**105,406**	**89,404**	**17.9%**

Healthcare business revenue increased by 20.1% y-o-y to GEL 91.8 million in 1H 2014, the increase driven by strong performance of healthcare service business that posted revenue growth of 51.3% y-o-y to GEL 62.7 million in 1H 2014.

Revenue from the referral and specialty hospitals, the main source of revenue for healthcare services business, grew by 87.1% y-o-y, due to both organic growth and acquisitions. The 8.6% y-o-y growth of revenue from the community hospitals was purely organic and driven by the universal healthcare reform that increased the Georgia's population's financial and physical accessibility to outpatient diagnostic services. The decline in revenue from ambulatory services was due to the increased number of provider ambulatory clinics offered to Aldagi health insurance policy holders in Tbilisi. A 50.5% y-o-y decline in revenue from ambulance and rural primary care services was caused by the handover of the administration function related to these services to the Government as part of universal healthcare reform, which is expected to improve Aldagi's operating margins due to the very low profitability of these services.

Revenue from healthcare services rendered by payment sources

GEL thousands, unless otherwise noted	1H 2014	1H 2013	Change, Y-o-Y
Private insurance companies, *of which:*	20,751	24,466	-15.2%
Aldagi health insurance (Imedi L)	*13,291*	*17,530*	-24.2%
Government funded healthcare programs	27,685	7,276	NMF
Out-of-pocket payments by patients	15,709	10,457	50.2%
Impairment of revenues from healthcare services rendered	(1,427)	(756)	88.8%
Total	**62,718**	**41,443**	**51.3%**

The composition of revenue from healthcare services rendered by payment sources also reflects the recent healthcare reform, which contributed to the unprecedented growth in revenue from the state to GEL 27.7 million for 1H 2014, up 280.5% y-o-y and to a 15.2% y-o-y decline in revenues from private insurance companies to GEL 20.8 million in 1H 2014. As expected, the healthcare reform resulted in the decrease of the amount of the health claims expenditure concentrated within Aldagi group by 24.2% to GEL 13.3 million. The handover of the privately administered insurance to the Government funded healthcare programme is expected to continue until the end of the year, and is expected to result in reduced revenues from private insurers but an increase in revenues from the government.

Aldagi's health insurance revenue decreased by 19.2% y-o-y to GEL 42.6 million, as a result of lower health insurance premiums earned from state insurance programmes due to the universal healthcare reform described above. The handover of privately administered insurance to the government programme is to continue until the end of the year, further reducing the health insurance revenues. The management expects the reduction in health insurance revenues due to the discontinuation of the government-funded programme to total to up to GEL 10.9 million in 2H 2014.

P&C insurance business posted revenue of GEL 13.7 million in 1H 2014, up 4.8% over the same period last year. Aldagi's P&C insurance business is Georgia's leading provider of the widest range of insurance products for corporate and retail clients, including motor third party liability and own damage, commercial property, contractor's all liability, general third party liability, travel, household property, cargo, professional indemnity, MPA, freight forwarders liability, guarantees, aviation hull, containers', employers liability, financial risks, agro, product liability, marine hull, machinery breakdown, etc.

Aldagi group COGS and insurance claims expenses

GEL thousands, unless otherwise noted	1H 2014	1H 2013	Change, Y-o-Y
Healthcare business COGS and claims expense	**61,228**	**50,332**	**21.6%**
COGS for healthcare services rendered	***36,319***	***24,311***	***49.4%***
Direct salary	25,125	16,204	*55.1%*
Materials, including medicines and medical disposables	7,801	5,395	*44.6%*
Utilities and other expenses	3,392	2,712	*25.1%*
Health insurance claims expense	***38,200***	***43,551***	***-12.3%***
Intercompany eliminations	(13,291)	(17,530)	*-24.2%*
P&C insurance claims expense	**5,140**	**4,491**	**14.5%**
Total Aldagi group COGS and insurance claims expense	**66,368**	**54,823**	**21.1%**

In 1H 2014, Aldagi group's gross profit increased by 12.9% y-o-y to GEL 39.0 million, due to a of 17.9% increase in revenue during the same period, maintaining gross margin (defined as gross profit divided by revenue) at 37.0%, predominantly a result of the improved gross margin of the healthcare services business driven by the increased utilisation of healthcare services following the recent reforms. The handover of the margin-dilutive ambulance and rural primary health care service to the state also had a positive effect on margins.

In comparison to the 51.3% y-o-y growth in revenue from healthcare services rendered, cost of goods sold increased only by 49.4% y-o-y, with more than half of this growth coming from the increase in payroll costs, primarily attributed to the recent acquisitions. Since 30 June 2013 headcount increased by 2,093 employees to reach 7,936 full-time employees.

Aldagi successfully integrated its acquisitions of Block Georgia and Unimed with its My Family Clinic operations in 2011 and 2012 respectively. Building on this successful track record, Aldagi is in the process of realising post-acquisition synergies in operating expenses, medicines and medical disposable costs. This is reflected in only a 44.6% growth in materials costs in comparison to the 51.3% increase in revenues from healthcare services rendered.

Aldagi group administrative costs

GEL thousands, unless otherwise noted	1H 2014	1H 2013	Change, Y-o-Y
Healthcare business SG&A	**13,931**	**10,765**	**29.4%**
Salaries and other employee benefits	8,674	6,948	24.8%
Rent	1,069	840	27.3%
Impairment Charge	1,096	1,138	-3.7%
Marketing and advertising	496	148	235.1%
Stationary and office supplies	549	539	1.9%
Communications	361	261	38.3%
Other	1,687	891	89.3%
P&C insurance business SG&A	**3,643**	**3,770**	**-3.4%**
Intercompany eliminations	(88)	(64)	37.5%
Total Aldagi group SG&A	**17,486**	**14,471**	**20.8%**

While Aldagi continues to control costs, selling and administrative expenses increased by 20.8% y-o-y to GEL 17.5 million, reflecting the increase in administrative expenses due to the reorganisation.

Aldagi EBITDA, depreciation, net-interest income and profit for the period

GEL thousands, unless otherwise noted	1H 2014	1H 2013	Change, Y-o-Y
Healthcare EBITDA	**17,665**	**16,264**	**8.6%**
Depreciation	(3,642)	(2,693)	35.2%
Net interest income	(5,862)	(4,887)	20.0%
Loss on currency exchange	(2,723)	(29)	NMF
Net non-recurring items	1,314	57	NMF
Healthcare profit before income tax expense	**6,752**	**8,712**	**-22.5%**
Income tax expense	(605)	(1,188)	-49.1%
Healthcare profit	**6,147**	**7,524**	**-18.3%**
P&C EBITDA	**4,874**	**5,015**	**-2.8%**
P&C net income	**4,080**	**3,923**	**4.0%**
Total Aldagi group net income	**10,227**	**11,447**	**-2.8%**

Aldagi group's EBITDA reached GEL 22.5 million, up 5.9% y-o-y. Net interest expense of the Group grew by 14.6% y-o-y despite the higher growth rate of borrowed funds that grew 20.2% y-o-y, reflecting the successful reduction of cost of funding during the period. GEL 1.0 million or 33.4% increase in depreciation costs, driven by the new acquisitions and a GEL 2.7 million foreign exchange related losses in 1H 2014 compared to GEL 0.05 million for the same period last year, resulting in 1H 2014 net income of GEL 10.2 million. By the end of Q2 2014, nearly half of the borrowings were converted to local currency which made up most part of the borrowings by the end of the period, thus minimising foreign currency exchange risk in the future.

As a result of the foregoing, net income of the group's healthcare business stood at GEL 6.1 million, down from GEL 7.5 million in 1H 2013. P&C net income increased 4.0% y-o-y to GEL 4.1 million in 1H 2014.

BALANCE SHEET, SELECTED ITEMS for HEALTHCARE BUSINESS

GEL thousands, unless otherwise noted	1H 2014	2013	Change
Total assets, of which:	**415,689**	**344,985**	20.5%
Healthcare business total assets	344,456	276,533	24.6%
Healthcare business premises and equipment, net	228,497	173,767	31.5%
Total liabilities, of which:	**256,901**	**226,747**	***13.3%***
Healthcare business total liabilities	207,731	176,278	17.8%
Healthcare business borrowed funds	129,046	105,242	22.6%
Total shareholders' equity , of which:	**158,788**	**118,238**	***34.3%***
Healthcare business total shareholders' equity	136,725	100,255	36.4%

Aldagi group's balance sheet increased substantially over the last year with assets growing to GEL 415.7 million as of 30 June 2014, up 20.5% from GEL 345.0 million as of 31 December 2013. In 1H 2014, the growth of total assets of GEL 70.7 million was largely driven by GEL 54.7 million, or 31.5%, increase in the property and equipment of Aldagi healthcare business, reflecting the acquisition of new hospitals at the end of 2013 and first half of 2014. Aldagi owns 34 out of 36 healthcare facilities, which are fully reflected on the balance sheet. In addition, Aldagi leases the Tbilisi ambulatory clinic and operates a Poti community hospital under management contract.

Highlights

- Aldagi's market share in healthcare services increased to 19.9% as of 30 June 2014 in compared to 14.3% as of 31 December 2013, based on hospital beds.
- Aldagi's market share in health insurance grew to 37.6% as of 31 March 2014, compared to 28.7% as of 30 June 2013 based on gross insurance premium revenue as reported by the Insurance State Supervision Service of Georgia.
- Aldagi's market share in P&C insurance grew to 37.8% as of 31 March 2014 compared to 34.4% as of 30 June 2013
- During the first half of 2014, Aldagi's healthcare subsidiary acquired the second-largest healthcare provider in the country, with four hospitals and 578 beds located in Tbilisi and Batumi; a 60 bed, high-end, multi-specialty hospital in Tbilisi and a 100% equity interest in Sunstone Medical LLC, which owns a hospital in East Tbilisi with an estimated total development capacity of 300 beds. All three acquisitions are in line with the company's strategy to scale up its healthcare business through targeted acquisitions in the capital city.
- In April 2014, Aldagi completed a buy-out of a 49% minority shareholder of MFC. Aldagi has held a 51% controlling interest in MFC since December 2011.MFC became a wholly-owned subsidiary following the transaction.
- Launched Teaching and Research Center in Kutaisi to continue to support internal skills development and human resource capacity at its healthcare facilities.

Affordable Housing

GEL thousands, unless otherwise noted	Jun-13			Jun-12			Change, Y-O-Y		
	m2	**Mortgages**	**Total**	**m2**	**Mortgages**	**Total**	**m2**	**Mortgages**	**Total**
Net interest (expenses) income	(538)	725	187	625	412	1,037	NMF	76.0%	-81.9%
Net fee and commission expenses	-	-	-	(18)	-	(18)	-100.0%	-	-100.0%
Net loss from foreign currencies	73	-	73	(44)	-	(44)	NMF	-	NMF
Other operating non-interest income	9,711	-	9,711	5,641	-	5,641	72.2%	-	72.2%
Revenue	**9,246**	**725**	**9,971**	**6,204**	**412**	**6,616**	**49.1%**	**76.0%**	**50.7%**
Operating expenses	(2,774)	-	(2,774)	(1,103)	-	(1,103)	151.5%	-	151.5%
Operating income before cost of credit risk	**6,472**	**725**	**7,197**	**5,101**	**412**	**5,513**	**26.9%**	**76.0%**	**30.6%**
Cost of credit risk	-	(30)	(30)	(185)	251	66	-100.0%	NMF	NMF
Net non-recurring items	18	-	18	(493)	-	(493)	NMF	-	NMF
Profit before income tax expense	**6,490**	**695**	**7,185**	**4,423**	**663**	**5,086**	**46.8%**	**4.8%**	**41.3%**
Income tax expense	(974)	-	(974)	(662)	-	(662)	47.1%	-	47.1%
Profit	**5,516**	**695**	**6,211**	**3,761**	**663**	**4,424**	**46.7%**	**4.8%**	**40.4%**

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

Other operating non-interest income reached GEL 9.7 million as a result of recognition of major part of revenue from its largest project (the second project on Tamarashvili Street) following handover of apartments in completed blocks. Total revenue as a result reached 10.0 million, up 50.7% from GEL 6.6 million in 1H 2014. As a result, profit for the period was GEL 6.2 million, up 40.4% from GEL 4.4 million in 1H 2013.

Highlights

- Completed construction of its largest project (second project) of a 522 apartment building with a total buildable area of 63,247 square meters. As of the date of this report, 508 or 97% of apartments had been sold. The total sales from this project amounted to US$45.1 million. The project was completed in June 2014, four months ahead of the completion deadline, with an estimated IRR of 40%. 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 (total buildable area of 33,574 square meters) and Nutsubidze Street (total buildable area of 26,014 square meters). As the date of this report, m2 sold 213 or 74% of the apartments in the Kazbegi Avenue project and 121 or 55% of the units in the Nutsubidze Street project. Sales amounted to US$19.1 million and US$9.3 million, out of which US$3.3 and US$2.8 respectively were sold as mortgages.
- In July 2014, m2 Real Estate launched its fifth project: Tamarashvili Avenue (total buildable area of 29,303 square meters). Within four weeks of launching this project, m2 sold 74 or 27% of the apartments. Sales amounted to US$6.3 million, out of which US$2.8 were sold as mortgages.
- Number of mortgages sold in all m2 Real Estate projects totalled 393 amounting to GEL 42.2 million.
- Completed two bond offerings in June 2014. A US$10 million 1-year bond placement at par with a coupon rate of 8.42% and a US$5 million 1 year bond with a coupon rate of 9.5%. The US$10 million bond was issued following exceptionally strong interest in the bonds for the US$5 million issue, which left US$3 million demand unmet.

Non-Core Businesses

The Group's non-core businesses accounted for 5.9% of total assets and 8.1% of total revenue in 1H 2014 and predominantly comprised Joint Stock Company Belarusky Narodny Bank (BNB), our Belarus banking operation, and Liberty Consumer, a Georgia-focused investment company in which the Bank holds a 68% stake. In order to focus on its strategic businesses, the Bank has announced its intention to exit from its non-core operations. As of 30 June 2014, the Bank still held Teliani Valley, a Georgian wine producer, through Liberty Consumer. The Bank intends to sell this remaining asset in due course.

BNB

GEL thousands, unless otherwise noted	**1H 2014**	**1H 2013**	**Change Y-O-Y**
Net interest income	11,175	8,370	33.5%
Net fee and commission income	4,342	2,802	55.0%
Net gain from foreign currencies	2,928	1,388	111.0%
Other operating non-interest income	272	43	NMF
Revenue	**18,717**	**12,603**	**48.5%**
Operating expenses	(8,639)	(6,689)	29.2%
Operating income before cost of credit risk	**10,078**	**5,914**	**70.4%**
Cost of credit risk	(1,601)	(626)	155.8%
Net non-recurring items	(2,115)	(790)	167.7%
Profit before income tax expense	**6,362**	**4,498**	**41.4%**
Income tax expense	(1,932)	(1,239)	55.9%
Profit	**4,430**	**3,259**	**35.9%**
Cost / income ratio	*46.2%*	*53.1%*	*-6.9%*
Net loans	217,325	157,076	38.4%
Total assets	327,100	230,344	42.0%
Client deposits	158,838	100,640	57.8%
Total liabilities	245,465	174,456	40.7%

Through BNB, the Bank provides retail and corporate banking services in Belarus. BNB continued excellent performance into 2014, posting a 48.5% growth in revenue to GEL 18.7 million. The strong revenue growth was supported by a 33.5% and 55.0% growth in net interest income and net fee and commission income, respectively as well as doubling of other operating non-interest income. Operating expenses also grew with the higher revenue base, increasing 29.2% to GEL 8.6 million, lagging behind the revenue growth. As a result, BNB reported a double digit operating leverage of 19.3 percentage points in 1H 2014. The Cost of credit risk increased from GEL 0.6 million to GEL 1.6 million as a result of a sharp growth in net loans, which increased by 38.4% to GEL 217.3 million.

As a result of the foregoing, the profit for the period increased by 35.9% to GEL 4.4 million.

As of 30 June 2014, BNB's total assets stood at GEL 327.1 million, net loan book at GEL 217.3 million, client deposits at GEL 158.8 million and equity at GEL 64.3 million, representing 4.9%, 5.9%, 5.2% and 5.1% of the Bank's total assets, loan book, client deposits and equity, respectively.

Highlights

- Received funding totalling US$ 10 mln from IFC and Triple Jump, a fund management company investing in micro and small and medium size enterprises in developing countries, to increase the access to financing for SMEs in Belarus
- Added 131 cards bringing total number of cards to more than 23,000 as of 30 June 2014
- Introduced a credit card with a grace period, which is still a novelty product in Belarus
- Added two currency exchange points bringing the total number of points to 18

SELECTED FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

GEL thousands, unless otherwise noted	**Jun-14** *Unaudited*	**Jun-13** *Unaudited*	**Change Y-O-Y**
Loans to customers	258,571	260,047	-0.6%
Investment securities	18,071	17,642	2.4%
Amounts due from credit institutions	3,505	4,945	-29.1%
Finance lease receivables	4,498	3,208	40.2%
Interest income	**284,645**	**285,842**	**-0.4%**
Amounts due to customers	(66,987)	(85,538)	-21.7%
Amounts due to credit institutions, of which:	(30,970)	(33,434)	-7.4%
Subordinated debt	*(5,989)*	*(11,144)*	*-46.3%*
Loans and deposits from other banks	*(24,981)*	*(22,290)*	*12.1%*
Debt securities issued, of which:	(26,430)	(16,191)	63.2%
Eurobonds	*(25,967)*	*(16,191)*	*60.4%*
Other	*(463)*	-	-
Interest expense	**(124,387)**	**(135,163)**	**-8.0%**
Net interest income before interest rate swaps	**160,258**	**150,679**	**6.4%**
Net loss from interest rate swaps	-	(185)	-100.0%
Net interest income	**160,258**	**150,494**	**6.5%**
Fee and commission income	62,815	54,898	14.4%
Fee and commission expense	(16,768)	(12,622)	32.8%
Net fee and commission income	**46,047**	**42,276**	**8.9%**
Net insurance premiums earned	54,618	64,289	-15.0%
Net insurance claims incurred	(38,560)	(41,565)	-7.2%
Net insurance revenue	**16,058**	**22,724**	**-29.3%**
Healthcare revenue	52,591	27,489	91.3%
Cost of healthcare services	(32,855)	(18,498)	77.6%
Net healthcare revenue	**19,736**	**8,991**	**119.5%**
Real estate income	11,793	2,599	NMF
Net gain from trading and investment securities	185	2,590	-92.9%
Net gain from revaluation of investment property	-	4,842	-100.0%
Net gain from foreign currencies, of which:	20,852	21,677	-3.8%
Other operating income	6,583	6,226	5.7%
Other operating non-interest income	**39,413**	**37,934**	**3.9%**
Revenue	**281,512**	**262,419**	**7.3%**
Salaries and other employee benefits	(73,058)	(65,077)	12.3%
General and administrative expenses	(34,688)	(29,764)	16.5%
Depreciation and amortisation expenses	(13,806)	(13,339)	3.5%
Other operating expenses	(1,762)	(1,184)	48.8%
Operating expenses	**(123,314)**	**(109,364)**	**12.8%**
Operating income before cost of credit risk	**158,198**	**153,055**	**3.4%**
Cost of credit risk	**(27,162)**	**(36,261)**	**-25.1%**
Operating income before net non-recurring items	**131,036**	**116,794**	**12.2%**
Net non-recurring items	(8,198)	(5,453)	50.3%
Profit before income tax expense	**122,838**	**111,341**	**10.3%**
Income tax expense	(10,857)	(16,239)	-33.1%
Profit	**111,981**	**95,102**	17.7%
Attributable to:			
– shareholders of the Group	*108,346*	*91,735*	*18.1%*
– non-controlling interests	*3,635*	*3,367*	*8.0%*
Earnings per share (basic and diluted) (GEL)	**3.15**	**2.70**	**16.7%**

CONSOLIDATED INCOME STATEMENT

GEL thousands, unless otherwise noted	**Q2 2014** ***Unaudited***	**Q2 2013** ***Unaudited***	**Change Y-O-Y**	**Q1 2014** ***Unaudited***	**Change Q-O-Q**
Loans to customers	128,157	130,589	-1.9%	130,414	-1.7%
Investment securities	9,552	9,634	-0.9%	8,519	12.1%
Amounts due from credit institutions	1,467	2,330	-37.0%	2,038	-28.0%
Finance lease receivables	2,238	1,709	31.0%	2,260	-1.0%
Interest income	**141,414**	**144,262**	**-2.0%**	**143,231**	**-1.3%**
Amounts due to customers	(32,603)	(41,620)	-21.7%	(34,384)	-5.2%
Amounts due to credit institutions, of which:	(14,726)	(16,421)	-10.3%	(16,244)	-9.3%
Subordinated debt	*(2,633)*	*(4,924)*	*-46.5%*	*(3,356)*	*-21.5%*
Loans and deposits from other banks	*(12,093)*	*(11,497)*	*5.2%*	*(12,888)*	*-6.2%*
Debt securities issued, of which:	(13,531)	(8,214)	64.7%	(12,899)	4.9%
Eurobonds	*(13,233)*	*(8,214)*	*61.1%*	*(12,734)*	*3.9%*
Other	*(298)*	-	-	*(165)*	*80.6%*
Interest expense	**(60,860)**	**(66,255)**	**-8.1%**	**(63,527)**	**-4.2%**
Net interest income before interest rate swaps	**80,554**	**78,007**	**3.3%**	**79,704**	**1.1%**
Net loss from interest rate swaps	-	(109)	-100.0%	-	-
Net interest income	**80,554**	**77,898**	**3.4%**	**79,704**	**1.1%**
Fee and commission income	34,737	28,337	22.6%	28,078	23.7%
Fee and commission expense	(8,610)	(6,558)	31.3%	(8,158)	5.5%
Net fee and commission income	**26,127**	**21,779**	**20.0%**	**19,920**	**31.2%**
Net insurance premiums earned	25,228	32,545	-22.5%	29,390	-14.2%
Net insurance claims incurred	(18,876)	(21,547)	-12.4%	(19,684)	-4.1%
Net insurance revenue	**6,352**	**10,998**	**-42.2%**	**9,706**	**-34.6%**
Healthcare revenue	29,843	14,419	107.0%	22,748	31.2%
Cost of healthcare services	(17,904)	(9,319)	92.1%	(14,951)	19.8%
Net healthcare revenue	**11,939**	**5,100**	**134.1%**	**7,797**	**53.1%**
Real estate income	5,098	1,380	NMF	6,694	-23.8%
Net gain from trading and investment securities	97	1,306	-92.6%	88	10.2%
Net gain from revaluation of investment property	-	4,842	-100.0%	-	-
Net gain from foreign currencies, of which:	9,963	12,225	-18.5%	10,889	-8.5%
Other operating income	4,045	4,125	-1.9%	2,539	59.3%
Other operating non-interest income	**19,203**	**23,878**	**-19.6%**	**20,210**	**-5.0%**
Revenue	**144,175**	**139,653**	**3.2%**	**137,337**	**5.0%**
Salaries and other employee benefits	(37,251)	(32,575)	14.4%	(35,808)	4.0%
General and administrative expenses	(19,198)	(15,707)	22.2%	(15,490)	23.9%
Depreciation and amortisation expenses	(6,932)	(6,747)	2.7%	(6,874)	0.8%
Other operating expenses	(889)	(664)	33.9%	(871)	2.1%
Operating expenses	**(64,270)**	**(55,693)**	**15.4%**	**(59,043)**	**8.9%**
Operating income before cost of credit risk	**79,905**	**83,960**	**-4.8%**	**78,294**	**2.1%**
Cost of credit risk	**(13,847)**	**(18,984)**	**-27.1%**	**(13,316)**	**4.0%**
Operating income before net non-recurring items	**66,058**	**64,976**	**1.7%**	**64,978**	**1.7%**
Net non-recurring items	(7,077)	(4,088)	73.1%	(1,120)	NMF
Profit before income tax expense	**58,981**	**60,888**	**-3.1%**	**63,858**	**-7.6%**
Income tax expense	(663)	(7,783)	-91.5%	(10,194)	-93.5%
Profit	**58,318**	**53,105**	**9.8%**	**53,664**	**8.7%**
Attributable to:					
– shareholders of the Group	*56,422*	*51,138*	*10.3%*	*51,925*	*8.7%*
– non-controlling interests	*1,896*	*1,967*	*-3.6%*	*1,739*	*9.0%*
Earnings per share (basic and diluted) (GEL)	**1.64**	**1.51**	**8.6%**	**1.51**	**8.6%**

CONSOLIDATED BALANCE SHEET

GEL thousands, unless otherwise noted	**Jun-14** ***Unaudited***	**Jun-13** ***Unaudited***	**Change Y-O-Y**	**Mar-14** ***Unaudited***	**Change Q-O-Q**
Cash and cash equivalents	903,734	547,404	65.1%	979,498	-7.7%
Amounts due from credit institutions	363,468	326,537	11.3%	379,255	-4.2%
Investment securities	569,937	644,237	-11.5%	601,128	-5.2%
Loans to customers and finance lease receivables	3,659,427	3,122,916	17.2%	3,489,252	4.9%
Investment property	152,292	169,722	-10.3%	154,847	-1.7%
Property and equipment	534,289	447,205	19.5%	516,731	3.4%
Goodwill	48,720	45,657	6.7%	48,720	0.0%
Intangible assets	28,490	24,039	18.5%	27,873	2.2%
Income tax assets	32,204	15,941	102.0%	27,772	16.0%
Prepayments	28,188	30,205	-6.7%	35,735	-21.1%
Other assets	346,932	297,831	16.5%	358,964	-3.4%
Total assets	**6,667,681**	**5,671,694**	**17.6%**	**6,619,775**	**0.7%**
Amounts due to customers, of which:	3,074,710	2,850,234	7.9%	3,065,536	0.3%
Client deposits	*3,046,845*	*2,838,153*	*7.4%*	*3,037,120*	*0.3%*
Promissory notes	*27,865*	*12,081*	*130.7%*	*28,416*	*-1.9%*
Amounts due to credit institutions	1,240,128	1,050,831	18.0%	1,206,818	2.8%
Debt securities issued	786,432	424,854	85.1%	734,771	7.0%
Income tax liabilities	92,617	57,411	61.3%	96,384	-3.9%
Provisions	6,047	483	NMF	2,289	164.2%
Other liabilities	210,871	184,976	14.0%	226,950	-7.1%
Total liabilities	**5,410,805**	**4,568,789**	**18.4%**	**5,332,748**	**1.5%**
Share capital	1,081	903	19.7%	1,043	3.6%
Additional paid-in capital	33,409	19,645	70.1%	26,827	24.5%
Treasury shares	(46)	(50)	-8.0%	(42)	9.5%
Other reserves	(82,318)	39,209	NMF	(39,222)	109.9%
Retained earnings	1,249,580	988,885	26.4%	1,229,995	1.6%
Total equity attributable to shareholders of the Group	**1,201,706**	**1,048,592**	**14.6%**	**1,218,601**	**-1.4%**
Non-controlling interests	55,170	54,313	1.6%	68,426	-19.4%
Total equity	**1,256,876**	**1,102,905**	**14.0%**	**1,287,027**	**-2.3%**
Total liabilities and equity	**6,667,681**	**5,671,694**	**17.6%**	**6,619,775**	**0.7%**
Book value per share (GEL)	**34.95**	**30.90**	**13.1%**	**35.35**	**-1.1%**

CONSOLIDATED INCOME STATEMENT

	USD			GBP		
Thousands, unless otherwise noted	**Jun-14** ***Unaudited***	**Jun-13** ***Unaudited***	**Change Y-O-Y**	**Jun-14** ***Unaudited***	**Jun-13** ***Unaudited***	**Change Y-O-Y %**
Loans to customers	146,160	157,518	-7.2%	85,864	103,357	-16.9%
Investment securities	10,215	10,686	-4.4%	6,001	7,012	-14.4%
Amounts due from credit institutions	1,981	2,995	-33.9%	1,164	1,965	-40.8%
Finance lease receivables	2,542	1,944	30.8%	1,493	1,276	17.0%
Interest income	**160,898**	**173,143**	**-7.1%**	**94,522**	**113,610**	**-16.8%**
Amounts due to customers	(37,865)	(51,813)	-26.9%	(22,244)	(33,998)	-34.6%
Amounts due to credit institutions, of which:	(17,506)	(20,252)	-13.6%	(10,284)	(13,289)	-22.6%
Subordinated debt	*(3,385)*	*(6,750)*	*-49.9%*	*(1,989)*	*(4,429)*	*-55.1%*
Loans and deposits from other banks	*(14,121)*	*(13,502)*	*4.6%*	*(8,295)*	*(8,859)*	*-6.4%*
Debt securities issued, of which:	*(14,940)*	*(9,807)*	*52.3%*	*(8,777)*	*(6,435)*	*36.4%*
Eurobonds	*(14,678)*	*(9,807)*	*49.7%*	*(8,623)*	*(6,435)*	*34.0%*
Other	*(262)*	-	-	*(154)*	-	-
Interest expense	**(70,311)**	**(81,872)**	**-14.1%**	**(41,305)**	**(53,722)**	**-23.1%**
Net interest income before interest rate swaps	**90,587**	**91,271**	**-0.7%**	**53,217**	**59,888**	**-11.1%**
Net loss from interest rate swaps	-	(112)	-100.0%	-	(73)	-
Net interest income	**90,587**	**91,159**	**-0.6%**	**53,217**	**59,815**	**-11.0%**
Fee and commission income	35,507	33,253	6.8%	20,859	21,820	-4.4%
Fee and commission expense	(9,479)	(7,645)	24.0%	(5,568)	(5,017)	11.0%
Net fee and commission income	**26,028**	**25,608**	**1.6%**	**15,291**	**16,803**	**-9.0%**
Net insurance premiums earned	30,873	38,942	-20.7%	18,137	25,552	-29.0%
Net insurance claims incurred	(21,796)	(25,177)	-13.4%	(12,805)	(16,520)	-22.5%
Net insurance revenue	**9,077**	**13,765**	**-34.1%**	**5,332**	**9,032**	**-41.0%**
Healthcare revenue	29,728	16,651	78.5%	17,464	10,926	59.8%
Cost of healthcare services	(18,572)	(11,205)	65.7%	(10,910)	(7,352)	48.4%
Net healthcare revenue	**11,156**	**5,446**	**104.8%**	**6,554**	**3,574**	**83.4%**
Real estate income	6,666	1,574	NMF	3,916	1,033	NMF
Net gain from trading and investment securities	105	1,569	-93.3%	61	1,029	-94.1%
Net gain from revaluation of investment property	-	2,933	-100.0%	-	1,924	-
Net gain from foreign currencies, of which:	11,787	13,130	-10.2%	6,924	8,616	-19.6%
Other operating income	3,721	3,771	-1.3%	2,187	2,474	-11.6%
Other operating non-interest income	**22,279**	**22,977**	**-3.0%**	**13,088**	**15,076**	**-13.2%**
Revenue	**159,127**	**158,955**	**0.1%**	**93,482**	**104,300**	**-10.4%**
Salaries and other employee benefits	(41,297)	(39,419)	4.8%	(24,260)	(25,865)	-6.2%
General and administrative expenses	(19,608)	(18,029)	8.8%	(11,519)	(11,830)	-2.6%
Depreciation and amortisation expenses	(7,804)	(8,080)	-3.4%	(4,585)	(5,302)	-13.5%
Other operating expenses	(995)	(717)	38.8%	(585)	(470)	24.5%
Operating expenses	**(69,704)**	**(66,245)**	**5.2%**	**(40,949)**	**(43,467)**	**-5.8%**
Operating income before cost of credit risk	**89,423**	**92,710**	**-3.5%**	**52,533**	**60,833**	**-13.6%**
Cost of credit risk	**(15,354)**	**(21,964)**	**-30.1%**	**(9,020)**	**(14,412)**	**-37.4%**
Operating income before net non-recurring items	**74,069**	**70,746**	**4.7%**	**43,513**	**46,421**	**-6.3%**
Net non-recurring items	(4,634)	(3,303)	40.3%	(2,722)	(2,168)	25.6%
Profit before income tax expense	69,435	67,443	3.0%	40,791	44,253	-7.8%
Income tax expense	(6,137)	(9,837)	-37.6%	(3,605)	(6,454)	-44.1%
Profit	**63,298**	**57,606**	**9.9%**	**37,186**	**37,799**	**-1.6%**
Attributable to:						
– shareholders of the Group	61,243	55,567	10.2%	35,979	36,461	-1.3%
– non-controlling interests	2,055	2,039	0.8%	1,207	1,338	-9.8%
Earnings per share (basic and diluted) (GEL)	**1.78**	**1.64**	**8.5%**	**1.05**	**1.07**	**-1.9%**

CONSOLIDATED INCOME STATEMENT

	USD					GBP				
Thousands, unless otherwise noted	**Q2 2014** ***Unaudited***	**Q2 2013** ***Unaudited***	**Change Y-O-Y**	**Q1 2014** ***Unaudited***	**Change Q-O-Q**	**Q2 2014** ***Unaudited***	**Q2 2013** ***Unaudited***	**Change Y-O-Y**	**Q1 2014** ***Unaudited***	**Change Q-O-Q**
Loans to customers	72,442	79,102	-8.4%	74,620	-2.9%	42,557	51,903	-18.0%	44,916	-5.3%
Investment securities	5,399	5,836	-7.5%	4,874	10.8%	3,172	3,829	-17.2%	2,934	8.1%
Amounts due from credit institutions	829	1,411	-41.2%	1,166	-28.9%	487	926	-47.4%	702	-30.6%
Finance lease receivables	1,266	1,035	22.3%	1,294	-2.2%	744	680	9.4%	778	-4.4%
Interest income	**79,936**	**87,384**	**-8.5%**	**81,954**	**-2.5%**	**46,960**	**57,338**	**-18.1%**	**49,330**	**-4.8%**
Amounts due to customers	(18,429)	(25,210)	-26.9%	(19,674)	-6.3%	(10,827)	(16,542)	-34.5%	(11,842)	-8.6%
Amounts due to credit institutions, of which:	(8,324)	(9,948)	-16.3%	(9,294)	-10.4%	(4,890)	(6,527)	-25.1%	(5,594)	-12.6%
Subordinated debt	*(1,488)*	*(2,983)*	*-50.1%*	*(1,920)*	*-22.5%*	*(874)*	*(1,957)*	*-55.3%*	*(1,156)*	*-24.4%*
Loans and deposits from other banks	*(6,836)*	*(6,965)*	*-1.9%*	*(7,374)*	*-7.3%*	*(4,016)*	*(4,570)*	*-12.1%*	*(4,438)*	*-9.5%*
Debt securities issued, of which:	(7,649)	(4,975)	53.7%	(7,381)	3.6%	(4,493)	(3,265)	37.6%	(4,443)	1.1%
Eurobonds	*(7,480)*	*(4,975)*	*50.4%*	*(7,286)*	*2.7%*	*(4,394)*	*(3,265)*	*34.6%*	*(4,386)*	*0.2%*
Other	*(169)*	*-*	*-*	*(95)*	*77.9%*	*(99)*	*-*	*-*	*(57)*	*73.7%*
Interest expense	**(34,402)**	**(40,133)**	**-14.3%**	**(36,349)**	**-5.4%**	**(20,210)**	**(26,334)**	**-23.3%**	**(21,879)**	**-7.6%**
Net interest income before interest rate	**45,534**	**47,251**	**-3.6%**	**45,605**	**-0.2%**	**26,750**	**31,004**	**-13.7%**	**27,451**	**-2.6%**
Net loss from interest rate swaps	-	(66)	-100.0%	-	-	-	(43)	-100.0%	-	-
Net interest income	**45,534**	**47,185**	**-3.5%**	**45,605**	**-0.2%**	**26,750**	**30,961**	**-13.6%**	**27,451**	**-2.6%**
Fee and commission income	19,635	17,165	14.4%	16,066	22.2%	11,535	11,263	2.4%	9,670	19.3%
Fee and commission expense	(4,866)	(3,973)	22.5%	(4,668)	4.2%	(2,859)	(2,607)	9.7%	(2,809)	1.8%
Net fee and commission income	**14,769**	**13,192**	**12.0%**	**11,398**	**29.6%**	**8,676**	**8,656**	**0.2%**	**6,861**	**26.5%**
Net insurance premiums earned	14,260	19,713	-27.7%	16,816	-15.2%	8,377	12,935	-35.2%	10,122	-17.2%
Net insurance claims incurred	(10,669)	(13,051)	-18.3%	(11,262)	-5.3%	(6,268)	(8,564)	-26.8%	(6,779)	-7.5%
Net insurance revenue	**3,591**	**6,662**	**-46.1%**	**5,554**	**-35.3%**	**2,109**	**4,371**	**-51.8%**	**3,343**	**-36.9%**
Healthcare revenue	16,869	8,734	93.1%	13,016	29.6%	9,910	5,731	72.9%	7,835	26.5%
Cost of healthcare services	(10,120)	(5,645)	79.3%	(8,555)	18.3%	(5,945)	(3,704)	60.5%	(5,150)	15.4%
Net healthcare revenue	**6,749**	**3,089**	**118.5%**	**4,461**	**51.3%**	**3,965**	**2,027**	**95.6%**	**2,685**	**47.7%**
Real estate income	2,882	836	NMF	3,830	-24.8%	1,693	548	NMF	2,305	-26.6%
Net gain from trading and investment securities	55	791	-93.0%	50	10.0%	32	519	-93.8%	30	6.7%
Net gain from revaluation of investment	-	2,933	-100.0%	-	-	-	1,924	-100.0%	-	-
Net gain from foreign currencies, of which:	5,632	7,405	-23.9%	6,230	-9.6%	3,308	4,859	-31.9%	3,750	-11.8%
Other operating income	2,284	2,499	-8.6%	1,454	57.1%	1,343	1,641	-18.2%	875	53.5%
Other operating non-interest income	**10,853**	**14,464**	**-25.0%**	**11,564**	**-6.1%**	**6,376**	**9,491**	**-32.8%**	**6,960**	**-8.4%**
Revenue	**81,496**	**84,592**	**-3.7%**	**78,582**	**3.7%**	**47,876**	**55,506**	**-13.7%**	**47,300**	**1.2%**
Salaries and other employee benefits	(21,056)	(19,732)	6.7%	(20,489)	2.8%	(12,370)	(12,947)	-4.5%	(12,333)	0.3%
General and administrative expenses	(10,852)	(9,514)	14.1%	(8,863)	22.4%	(6,375)	(6,243)	2.1%	(5,335)	19.5%
Depreciation and amortisation expenses	(3,918)	(4,087)	-4.1%	(3,933)	-0.4%	(2,302)	(2,682)	-14.2%	(2,367)	-2.7%
Other operating expenses	(503)	(402)	25.1%	(499)	0.8%	(295)	(264)	11.7%	(300)	-1.7%
Operating expenses	**(36,329)**	**(33,735)**	**7.7%**	**(33,784)**	**7.5%**	**(21,342)**	**(22,136)**	**-3.6%**	**(20,335)**	**5.0%**
Operating income before cost of credit risk	**45,167**	**50,857**	**-11.2%**	**44,798**	**0.8%**	**26,534**	**33,370**	**-20.5%**	**26,965**	**-1.6%**
Cost of credit risk	**(7,827)**	**(11,499)**	**-31.9%**	**(7,619)**	**2.7%**	**(4,598)**	**(7,545)**	**-39.1%**	**(4,586)**	**0.3%**
Operating income before net non-recurring items	**37,340**	**39,358**	**-5.1%**	**37,179**	**0.4%**	**21,936**	**25,825**	**-15.1%**	**22,379**	**-2.0%**
Net non-recurring items	(4,000)	(2,476)	61.6%	(641)	NMF	(2,350)	(1,625)	44.6%	(386)	NMF
Profit before income tax expense	**33,340**	**36,882**	**-9.6%**	**36,538**	**-8.8%**	**19,586**	**24,200**	**-19.1%**	**21,993**	**-10.9%**
Income tax expense	(375)	(4,715)	-92.0%	(5,833)	-93.6%	(220)	(3,093)	-92.9%	(3,510)	-93.7%
Profit	**32,965**	**32,167**	**2.5%**	**30,705**	**7.4%**	**19,366**	**21,107**	**-8.2%**	**18,483**	**4.8%**
Attributable to:										
– shareholders of the Group	31,893	30,976	3.0%	29,710	7.3%	18,736	20,325	-7.8%	17,884	4.8%
– non-controlling interests	1,072	1,191	-10.0%	995	7.7%	630	782	-19.4%	599	5.2%
Earnings per share (basic and diluted)	0.93	0.91	2.2%	0.86	8.1%	0.54	0.60	-10.0%	0.52	3.8%

CONSOLIDATED BALANCE SHEET

	USD					GBP				
	Jun-14	**Jun-13**	**Change**	**Mar-14**	**Change**	**Jun-14**	**Jun-13**	**Change**	**Mar-14**	**Change**
Thousands, unless otherwise noted	***Unaudited***	***Unaudited***	**Y-O-Y**	***Unaudited***	**Q-O-Q**	***Unaudited***	***Unaudited***	**Y-O-Y**	***Unaudited***	**Q-O-Q**
Cash and cash equivalents	510,844	331,579	54.1%	560,450	-8.9%	300,104	217,569	37.9%	337,351	-11.0%
Amounts due from credit institutions	205,454	197,793	3.9%	217,002	-5.3%	120,697	129,784	-7.0%	130,620	-7.6%
Investment securities	322,162	390,234	-17.4%	343,954	-6.3%	189,260	256,056	-26.1%	207,036	-8.6%
Loans to customers and finance lease receivables	2,068,525	1,891,645	9.4%	1,996,482	3.6%	1,215,191	1,241,223	-2.1%	1,201,740	1.1%
Investment property	86,084	102,806	-16.3%	88,600	-2.8%	50,572	67,457	-25.0%	53,331	-5.2%
Property and equipment	302,012	270,886	11.5%	295,663	2.1%	177,422	177,744	-0.2%	177,968	-0.3%
Goodwill	27,539	27,656	-0.4%	27,877	-1.2%	16,179	18,147	-10.8%	16,780	-3.6%
Intangible assets	16,104	14,561	10.6%	15,948	1.0%	9,461	9,554	-1.0%	9,600	-1.4%
Income tax assets	18,204	9,656	88.5%	15,891	14.6%	10,694	6,336	68.8%	9,565	11.8%
Prepayments	15,934	18,296	-12.9%	20,447	-22.1%	9,360	12,005	-22.0%	12,308	-24.0%
Other assets	196,106	180,404	8.7%	205,393	-4.5%	115,207	118,375	-2.7%	123,630	-6.8%
Total assets	**3,768,968**	**3,435,516**	**9.7%**	**3,787,707**	**-0.5%**	**2,214,147**	**2,254,250**	**-1.8%**	**2,279,929**	**-2.9%**
Amounts due to customers, of which:	1,738,008	1,726,473	0.7%	1,754,040	-0.9%	1,021,023	1,132,844	-9.9%	1,055,807	-3.3%
Client deposits	1,722,257	1,719,155	0.2%	1,737,781	-0.9%	1,011,770	1,128,042	-10.3%	1,046,020	-3.3%
Promissory notes	15,751	7,318	115.2%	16,259	-3.1%	9,253	4,802	92.7%	9,787	-5.5%
Amounts due to credit institutions	700,994	636,520	10.1%	690,518	1.5%	411,811	417,659	-1.4%	415,643	-0.9%
Debt securities issued	444,538	257,347	72.7%	420,422	5.7%	261,152	168,861	54.7%	253,064	3.2%
Income tax liabilities	52,353	34,776	50.5%	55,149	-5.1%	30,755	22,818	34.8%	33,196	-7.4%
Provisions	3,418	293	NMF	1,310	160.9%	2,008	192	NMF	788	154.8%
Other liabilities	119,196	112,045	6.4%	129,856	-8.2%	70,025	73,520	-4.8%	78,164	-10.4%
Total liabilities	**3,058,507**	**2,767,454**	**10.5%**	**3,051,295**	**0.2%**	**1,796,774**	**1,815,894**	**-1.1%**	**1,836,662**	**-2.2%**
Share capital	611	547	11.7%	597	2.3%	359	359	0.0%	359	0.0%
Additional paid-in capital	18,885	11,900	58.7%	15,350	23.0%	11,094	7,808	42.1%	9,240	20.1%
Treasury shares	(26)	(30)	-13.3%	(24)	8.3%	(15)	(20)	-25.0%	(14)	7.1%
Other reserves	(46,532)	23,749	NMF	(22,442)	107.3%	(27,336)	15,583	NMF	(13,509)	102.4%
Retained earnings	706,337	598,998	17.9%	703,779	0.4%	414,950	393,039	5.6%	423,625	-2.0%
Total equity attributable to shareholders of the Group	**679,275**	**635,164**	**6.9%**	**697,260**	**-2.6%**	**399,052**	**416,769**	**-4.3%**	**419,701**	**-4.9%**
Non-controlling interests	31,186	32,898	-5.2%	39,152	-20.3%	18,321	21,587	-15.1%	23,566	-22.3%
Total equity	710,461	668,062	6.3%	736,412	-3.5%	417,373	438,356	-4.8%	443,267	-5.8%
Total liabilities and equity	3,768,968	3,435,516	9.7%	3,787,707	-0.5%	2,214,147	2,254,250	-1.8%	2,279,929	-2.9%
Book value per share	19.76	18.72	5.6%	20.23	-2.3%	11.61	12.28	-5.5%	12.17	-4.6%

ALDAGI INCOME STATEMENT

GEL thousands, unless otherwise noted	1H 2014	1H 2013	Change Y-O-Y
Gross premiums written (GPW)	**53,676**	**64,588**	**-16.9%**
Gross premiums earned	**66,455**	**72,549**	**-8.4%**
Net insurance premiums earned	56,066	65,556	-14.5%
Net insurance claims incurred	(38,560)	(41,565)	-7.2%
Net insurance revenue	**17,506**	**23,991**	**-27.0%**
Healthcare revenue	52,591	27,489	91.3%
Cost of healthcare services	(32,855)	(18,498)	77.6%
Net healthcare revenue	**19,736**	**8,991**	**119.5%**
Net interest expense and other	**(7,864)**	**(3,723)**	**111.2%**
Revenue	**29,378**	**29,259**	**0.4%**
Operating expenses	(17,688)	(14,433)	22.6%
Operating income before cost of credit risk	**11,690**	**14,826**	**-21.2%**
Cost of credit risk	(1,410)	(1,421)	-0.8%
Net non-recurring items	1,375	-	-
Profit before income tax expense	**11,655**	**13,405**	**-13.1%**
Income tax expense	(1,428)	(1,958)	-27.1%
Profit	**10,227**	**11,447**	**-10.7%**

GEL thousands, unless otherwise noted	Q2 2014	Q2 2013	Change Y-O-Y	Q1 2014	Change Q-O-Q
Gross premiums written (GPW)	**22,359**	**26,761**	**-16.4%**	**31,317**	**-28.6%**
Gross premiums earned	**30,746**	**36,338**	**-15.4%**	**35,708**	**-13.9%**
Net insurance premiums earned	25,996	33,042	-21.3%	30,070	-13.5%
Net insurance claims incurred	(18,876)	(21,547)	-12.4%	(19,684)	-4.1%
Net insurance revenue	**7,120**	**11,495**	**-38.1%**	**10,386**	**-31.4%**
Healthcare revenue	29,843	14,419	107.0%	22,748	31.2%
Cost of healthcare services	(17,904)	(9,319)	92.1%	(14,951)	19.8%
Net healthcare revenue	**11,939**	**5,100**	**134.1%**	**7,797**	**53.1%**
Net interest expense and other	**(5,160)**	**(1,724)**	**199.3%**	**(2,703)**	**90.9%**
Revenue	**13,899**	**14,871**	**-6.5%**	**15,480**	**-10.2%**
Operating expenses	(9,275)	(7,059)	31.4%	(8,415)	10.2%
Operating income before cost of credit risk	**4,624**	**7,812**	**-40.8%**	**7,065**	**-34.6%**
Cost of credit risk	(686)	(561)	22.3%	(724)	-5.2%
Net non-recurring items	829	(1)	NMF	546	51.8%
Profit before income tax expense	**4,767**	**7,250**	**-34.2%**	**6,887**	**-30.8%**
Income tax expense	(529)	(1,031)	-48.7%	(898)	-41.1%
Profit	**4,238**	**6,219**	**-31.9%**	**5,989**	**-29.2%**

	Currency Blended		GEL		FC	
KEY RATIOS	**1H 2014**	**1H 2013**	**1H 2014**	**1H 2013**	**Jun-14**	**Jun-13**
Profitability						
ROAA, Annualised[1]	3.4%	3.4%				
ROAE, Annualised[2]	18.2%	17.6%				
ROAA, adjusted for impairment, annualised	3.5%	3.4%				
ROAE, adjusted for impairment, annualised	18.7%	17.6%				
Net Interest Margin, Annualised[3]	7.3%	7.8%	12.6%	13.4%	3.9%	4.3%
Loan Yield, Annualised[4]	14.7%	16.9%	19.5%	23.4%	12.1%	14.0%
Cost of Funds, Annualised[5]	5.0%	6.4%	4.1%	5.7%	5.3%	6.7%
Cost of Customer Funds, annualised	4.4%	6.2%	3.9%	5.8%	4.6%	6.3%
Cost of Client Deposits, annualised	4.4%	6.2%	3.9%	5.8%	4.6%	6.3%
Cost of Amounts Due to Credit Institutions, annualised	5.1%	6.6%	4.5%	4.8%	5.5%	7.0%
Cost of Debt Securities Issued	7.1%	7.8%				
Operating Leverage, Y-O-Y[6]	-5.5%	9.5%				
Efficiency						
Cost / Income[7]	43.8%	41.7%				
Liquidity						
NBG Liquidity Ratio[8]	38.1%	44.8%				
Liquid Assets To Total Liabilities[9]	34.0%	33.3%				
Net Loans To Customer Funds	119.0%	109.6%				
Net Loans To Customer Funds + DFIs	100.3%	90.0%				
Gross Loan Dollarisation Rate	68.5%	69.6%				
Customer Funds Dollarisation Rate	72.7%	65.7%				
Client Deposits Dollarisation Rate	72.5%	65.6%				
Leverage (Times)[10]	4.3	4.1				
Asset Quality:						
NPLs (in GEL)	145,590	131,960				
NPLs To Gross Loans To Clients	3.9%	4.1%				
NPL Coverage Ratio[11]	74.5%	89.1%				
NPL Coverage Ratio, Adjusted for discounted value ofcollateral[12]	116.8%	117.4%				
Cost of Risk, Annualised[13]	1.0%	1.5%				
Capital Adequacy:						
BIS Tier I Capital Adequacy Ratio, Consolidated[14]	22.5%	22.9%				
BIS Total Capital Adequacy Ratio, Consolidated[15]	26.3%	27.8%				
New NBG (Basel 2/3) Tier I Capital Adequacy Ratio[16]	10.8%	N/A				
New NBG (Basel 2/3) Total Capital Adequacy Ratio[17]	14.0%	N/A				
Old NBG Tier I Capital Adequacy Ratio[18]	14.8%	15.4%				
Old NBG Total Capital Adequacy Ratio[19]	13.8%	16.3%				
Per Share Values:						
Basic and diluted EPS (GEL)[20]	**3.15**	**2.70**				
Book Value Per Share (GEL)[21]	**34.99**	**30.90**				
Ordinary Shares Outstanding - Weighted Average, Basic[22]	34,442,314	34,030,799				
Ordinary Shares Outstanding - Weighted Average,Diluted[23]	34,442,314	34,030,799				
Ordinary Shares Outstanding - Period End, Basic	34,387,198	33,936,007				
Treasury Shares Outstanding - Period End	(1,522,185)	(1,973,376)				
Selected Operating Data:						
Full Time Employees, Group, Of Which:	12,267	11,507				
- Full Time Employees, BOG Stand-Alone	*3,629*	*3,692*				
- Full Time Employees, Aldagi BCI Insurance	*590*	*617*				
- Full Time Employees, Aldagi BCI Healthcare	*6,753*	*6,027*				
- Full Time Employees, BNB	*439*	*365*				
- Full Time Employees, Other	*856*	*806*				
Total Assets Per FTE, BOG Stand-Alone (in GEL thousands)	1,837	1,536				
Number Of Active Branches, Of Which:	206	197				
- Flagship Branches	*34*	*34*				
- Standard Branches	*100*	*100*				
- Express Branches (including Metro)	*72*	*63*				
Number Of ATMs	510	481				
Number Of Cards Outstanding, Of Which:	1,075,134	909,309				
- Debit cards	*957,386*	*797,492*				
- Credit cards	*117,748*	*111,817*				
Number Of POS Terminals	5,689	4,259				

OTHER RATIOS	Jun-14	Jun-13
Profitability Ratios:		
ROE, annualised,	18.2%	17.6%
Interest Income / Average Int. Earning Assets, Annualised[24]	12.9%	14.7%
Net F&C Inc. To Av. Int. Earn. Ass., annualised	1.8%	2.0%
Net Fee And Commission Income To Revenue	16.4%	16.1%
Revenue to Total Assets, annualised	8.5%	9.3%
Recurring Earning Power, Annualised[25]	4.8%	5.5%
Profit To Revenue	39.8%	36.2%
Efficiency Ratios:		
Operating Cost to Av. Total Ass., Annualised[26]	3.8%	3.9%
Cost to Average Total Assets, annualised	4.1%	4.2%
Personnel Cost to Revenue	26.0%	24.8%
Personnel Cost to Operating Cost	59.2%	59.5%
Personnel Cost to Average Total Assets, annualised	2.2%	2.3%
Liquidity Ratios:		
Liquid Assets To Total Assets	27.6%	26.8%
Net Loans to Total Assets	54.9%	55.1%
Average Net Loans to Average Total Assets	53.4%	54.4%
Interest Earning Assets to Total Assets	78.5%	78.2%
Average Interest Earning Assets/Average Total Assets	77.9%	78.0%
Net Loans to Client Deposits	120.1%	110.0%
Average Net Loans to Av. Client Deposits	115.4%	108.6%
Net Loans to Total Deposits	99.7%	99.5%
Net Loans to (Total Deposits + Equity)	74.3%	73.6%
Net Loans to Total Liabilities	67.6%	68.4%
Total Deposits to Total Liabilities	67.8%	68.7%
Client Deposits to Total Deposits	83.0%	90.4%
Client Deposits to Total Liabilities	56.3%	62.1%
Total Deposits to Total Assets	55.0%	55.3%
Client Deposits to Total Assets	45.7%	50.0%
Client Deposits to Total Equity (Times)	2.4	2.6
Total Equity to Net Loans	34.3%	35.3%
Asset Quality:		
Reserve For Loan Losses to Gross Loans to Clients[27]	2.9%	3.6%
% of Loans to Clients collateralized	87.0%	88.4%
Equity to Average Net Loans to Clients	35.7%	36.3%
Aldagi Ratios:		
ROAA, Annualised	5.3%	6.9%
ROAE, Annualised	15.7%	24.3%
Loss Ratio	72.4%	70.2%
Combined Ratio	91.1%	86.2%

KEY RATIOS QUARTERLY	Currency Blended Q2 2014	Currency Blended Q2 2013	Currency Blended Q1 2014	GEL Q2 2014	GEL Q2 2013	GEL Q1 2014	FC Q2 2014	FC Q2 2013	FC Q1 2014
Profitability									
ROAA, annualised[1]	3.5%	3.8%	3.3%						
ROAE, annualised[2]	18.6%	19.3%	17.7%						
ROAA, adjusted for impairment, annualised	3.7%	3.8%	3.3%						
ROAE, adjusted for impairment, annualised	19.7%	19.3%	17.7%						
Net Interest Margin, Annualised[3]	7.3%	7.9%	7.4%	12.4%	13.0%	12.8%	4.0%	4.6%	3.7%
Loan Yield, Annualised[4]	14.5%	17.0%	14.9%	19.2%	23.0%	19.8%	12.0%	14.2%	12.3%
Cost of Funds, Annualised[5]	4.8%	6.2%	5.1%	4.0%	5.5%	4.2%	5.1%	6.5%	5.5%
Cost of Customer Funds, annualised	4.3%	5.9%	4.6%	3.9%	5.5%	3.8%	4.4%	6.1%	4.9%
Cost of Client Deposits, annualised	4.3%	5.9%	4.6%	3.9%	5.5%	3.8%	4.4%	6.1%	4.9%
Cost of Amounts Due to Credit Institutions, annualised	4.9%	6.6%	5.3%	4.1%	5.0%	4.9%	5.4%	6.9%	5.6%
Cost of Debt Securities Issued	7.1%	7.8%	7.1%						
Operating Leverage, Y-O-Y[6]	-12.2%	13.3%	1.9%						
Efficiency									
Cost / Income[7]	44.6%	39.9%	43.0%						
Liquidity									
NBG Liquidity Ratio[8]	38.1%	44.8%	43.5%						
Liquid Assets To Total Liabilities[9]	34.0%	33.3%	36.8%						
Net Loans To Customer Funds	119.0%	109.6%	113.8%						
Net Loans To Customer Funds + DFIs	100.3%	90.0%	96.4%						
Gross Loan Dollarisation Rate	68.5%	69.6%	66.7%						
Customer Funds Dollarisation Rate	72.7%	65.7%	71.0%						
Client Deposits Dollarisation Rate	72.5%	65.6%	70.7%						
Leverage (Times)[10]	4.3	4.1	4.1						
Asset Quality:									
NPLs (in GEL)	145,590	131,960	138,477						
NPLs To Gross Loans To Clients	3.9%	4.1%	3.8%						
NPL Coverage Ratio[11]	74.5%	89.1%	92.0%						
NPL Coverage Ratio, Adjusted for discounted value of collateral[12]	116.8%	117.4%	121.4%						
Cost of Risk, Annualised[13]	0.9%	1.5%	1.0%						
Capital Adequacy:									
BIS Tier I Capital Adequacy Ratio, Consolidated[14]	22.5%	22.9%	23.7%						
BIS Total Capital Adequacy Ratio, Consolidated[15]	26.3%	27.8%	27.7%						
New NBG (Basel 2/3) Tier I Capital Adequacy Ratio[16]	10.8%	N/A	12.9%						
New NBG (Basel 2/3) Total Capital Adequacy Ratio[17]	14.0%	N/A	16.2%						
Old NBG Tier I Capital Adequacy Ratio[18]	14.8%	15.4%	16.4%						
Old NBG Total Capital Adequacy Ratio[19]	13.8%	16.3%	15.5%						
Per Share Values:									
Basic and diluted EPS (GEL)[20]	**1.64**	**1.51**	**1.51**						
Book Value Per Share (GEL)[21]	**34.95**	**30.90**	**35.35**						
Ordinary Shares Outstanding - Weighted Average, Basic[22]	34,414,605	33,829,260	34,470,332						
Ordinary Shares Outstanding - Weighted Average, Diluted[23]	34,414,605	33,829,260	34,470,332						
Ordinary Shares Outstanding - Period End, Basic	34,387,198	33,936,007	34,470,332						
Treasury Shares Outstanding - Period End	(1,522,185)	(1,973,376)	(1,439,051)						
Selected Operating Data:									
Full Time Employees, Group, Of Which:	12,267	11,507	13,612						
- Full Time Employees, BOG Stand-Alone	*3,629*	*3,692*	*3,561*						
- Full Time Employees, Aldagi BCI Insurance	*590*	*617*	*573*						
- Full Time Employees, Aldagi BCI Healthcare	*6,753*	*6,027*	*8,227*						
- Full Time Employees, BNB	*439*	*365*	*410*						
- Full Time Employees, Other	*856*	*806*	*841*						
Total Assets Per FTE, BOG Stand-Alone (in GEL thousands)	1,837	1,536	1,859						
Number Of Active Branches, Of Which:	206	197	203						
- Flagship Branches	*34*	*34*	*34*						
- Standard Branches	*100*	*100*	*99*						
- Express Branches (including Metro)	*72*	*63*	*70*						
Number Of ATMs	510	481	497						
Number Of Cards Outstanding, Of Which:	1,075,134	909,309	1,015,702						
- Debit cards	*957,386*	*797,492*	*897,856*						
- Credit cards	*117,748*	*111,817*	*117,846*						
Number Of POS Terminals	5,689	4,259	4,990						

OTHER RATIOS QUARTERLY	Q2 2014	Currency Blended Q2 2013	Q1 2014
Profitability Ratios:			
ROE, annualised,	18.8%	19.6%	17.3%
Interest Income / Average Int. Earning Assets,	12.7%	14.6%	13.2%
Net F&C Inc. To Av. Int. Earn. Ass., annualised	2.0%	2.0%	1.6%
Net Fee And Commission Income To Revenue	18.1%	15.6%	14.5%
Operating Leverage, Q-O-Q	-3.9%	10.0%	-1.7%
Revenue to Total Assets, annualised	8.7%	9.9%	8.4%
Recurring Earning Power, Annualised[24]	4.8%	6.0%	4.8%
Profit To Revenue	40.4%	38.0%	39.1%
Efficiency Ratios:			
Operating Cost to Av. Total Ass., annualised[25]	3.9%	4.0%	3.6%
Cost to Average Total Assets, annualised	4.4%	4.3%	3.7%
Personnel Cost to Revenue	25.8%	23.3%	26.1%
Personnel Cost to Operating Cost	58.0%	58.5%	60.6%
Personnel Cost to Average Total Assets, annualised	2.3%	2.3%	2.2%
Liquidity Ratios:			
Liquid Assets To Total Assets	27.6%	26.8%	29.6%
Net Loans to Total Assets	54.9%	55.1%	52.7%
Average Net Loans to Average Total Assets	53.4%	53.8%	53.3%
Interest Earning Assets to Total Assets	78.5%	78.2%	77.6%
Average Interest Earning Assets/Average Total Assets	77.8%	77.7%	78.0%
Net Loans to Client Deposits	120.1%	110.0%	114.9%
Average Net Loans to Av. Client Deposits	115.3%	106.7%	115.0%
Net Loans to Total Deposits	99.7%	99.5%	96.4%
Net Loans to (Total Deposits + Equity)	74.3%	73.6%	71.1%
Net Loans to Total Liabilities	67.6%	68.4%	65.4%
Total Deposits to Total Liabilities	67.8%	68.7%	67.9%
Client Deposits to Total Deposits	83.0%	90.4%	83.9%
Client Deposits to Total Liabilities	56.3%	62.1%	57.0%
Total Deposits to Total Assets	55.0%	55.3%	54.7%
Client Deposits to Total Assets	45.7%	50.0%	45.9%
Client Deposits to Total Equity (Times)	2.4	2.6	2.4
Total Equity to Net Loans	34.3%	35.3%	36.9%
Asset Quality:			
Reserve For Loan Losses to Gross Loans to Clients[26]	2.9%	3.6%	3.5%
% of Loans to Clients collateralized	87.0%	88.4%	87.0%
Equity to Average Net Loans to Clients	35.5%	36.4%	36.7%
Aldagi Ratios:			
ROAA, annualised	4.2%	7.4%	6.4%
ROAE, annualised	11.1%	24.9%	21.7%
Loss Ratio	75.6%	71.5%	69.6%
Combined Ratio	94.5%	85.8%	88.2%

NOTES TO KEY RATIOS

1 Return on average total assets (ROAA) equals Profit for the period divided by monthly average total assets for the same period;

2 Return on average total equity (ROAE) equals Profit for the period attributable to shareholders of the Bank divided by monthly average equity attributable to shareholders of the Bank for the same period;

3 Net Interest Margin equals Net Interest Income of the period (adjusted for the gains or losses from revaluation of interest rate derivatives) divided by monthly Average Interest Earning Assets Excluding Cash for the same period (daily averages are used for Bank of Georgia standalone Average Interest Earning assets); Interest Earning Assets Excluding Cash comprise: Amounts Due From Credit Institutions, Investment Securities (but excluding corporate shares and other equity instruments) and net Loans To Customers And Finance Lease Receivables;

4 Loan Yield equals Interest Income From Loans To Customers And Finance Lease Receivables divided by monthly Average Gross Loans To Customers And Finance Lease Receivables; (daily averages are used for Bank of Georgia standalone Gross Loans to Customers and Finance Lease Receivables);

5 Cost of Funds equals interest expense of the period (adjusted for the gains or losses from revaluation of interest rate derivatives) divided by monthly average interest bearing liabilities; interest bearing liabilities include: amounts due to credit institutions and amounts due to customers;

6 Operating Leverage equals percentage change in revenue less percentage change in Other operating expenses;

7 Cost / Income Ratio equals other operating expenses divided by revenue;

8 Average liquid assets during the month (as defined by NBG) divided by selected average liabilities and selected average off-statement of financial position commitments (both as defined by NBG);

9 Liquid assets include: cash and cash equivalents, amounts due from credit institutions and investment securities;

10 Leverage (Times) equals total liabilities divided by total equity;

11 NPL Coverage Ratio equals allowance for impairment of loans and finance lease receivables divided by NPLs;

12 NPL Coverage Ratio equals allowance for impairment of loans and finance lease receivables divided by NPLs (discounted value of collateral is added back to allowance for impairment)

13 Cost of Risk equals impairment charge for loans to customers and finance lease receivables for the period divided by monthly average gross loans to customers and finance lease receivables over the same period;

14 BIS Tier I Capital Adequacy ratio equals Tier I Capital divided by total risk weighted assets, both calculated in accordance with the requirements of Basel Accord I;

15 BIS Total Capital Adequacy ratio equals total capital divided by total risk weighted assets, both calculated in accordance with the requirements of Basel Accord I;

16 New NBG (Basel 2/3) Tier I Capital Adequacy ratio equals Tier I Capital divided by total risk weighted assets, both calculated in accordance with the requirements the National Bank of Georgia instructions;

17 New NBG (Basel 2/3) Total Capital Adequacy ratio equals total capital divided by total risk weighted assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions;

18 Old NBG Tier I Capital Adequacy ratio equals Tier I Capital divided by total risk weighted assets, both calculated in accordance with the requirements the National Bank of Georgia instructions;

19 Old NBG Total Capital Adequacy ratio equals total capital divided by total risk weighted Assets, both calculated in accordance with the requirements of the National Bank of Georgia instructions;

20 Basic EPS equals Profit for the period from continuing operations attributable to shareholders of the Bank divided by the weighted average number of outstanding ordinary shares over the same period;

21 Book Value Per Share equals total equity attributable to shareholders of the Bank divided by net ordinary shares outstanding at period end; net ordinary shares outstanding equals total number of ordinary shares outstanding at period end less number of treasury shares at period end;

22 Weighted average number of ordinary shares equal average of daily outstanding number of shares less daily outstanding number of treasury shares;

23 Weighted average diluted number of ordinary shares equals weighted average number of ordinary shares plus weighted average dilutive number of shares known to the management during the same period;

24 Average Interest Earning Assets are calculated on a monthly basis; interest earning assets excluding cash include: investment securities (but excluding corporate shares and other equity instruments) and loans to customers and finance lease receivables;

25 Recurring Earning Power equals operating income before cost of credit risk for the period divided by monthly average total assets of the same period;

26 Operating cost equals other operating expenses;

27 Reserve for Loan Losses to Gross Loans equals allowance for impairment of loans and finance lease receivables divided by gross loans and finance lease receivables.

ANNEX I – Summary of the new capital regulation

On 28 October 2013, the National Bank of Georgia published Decree No. 100/04, introducing a new capital regulation to replace the NBG capital regulation in place since 2002, which was occasionally updated previously. The old regulation was developed by the NBG independently from international committees and organizations and was not based on the Basel Accord. The new capital regulation, unlike its predecessor which was developed by the NBG, is based on the Basel Accord 2 and 3, with material regulatory discretions applied by the NBG. According to the Decree No. 100/04, Pillar 1 requirements of the new regulation came into force on 30 June 2014. The period starting 30 June 2014 through 31 December 2017 was declared as a transition period. During the transition period, the Georgian banks are required to comply with the certain ratios per old NBG regulation according the following schedule: 2014 – 100% of the old regulatory capital, in 2015 – 95% of the old regulatory capital, in 2016 – 90% of the older regulatory capital and in 2017 – 80% of the old regulatory capital.

According to the Decree No. 100/04, Pillar 2 requirements (the ICAAP) are expected to come in force after 30 September 2014, however, the deadline for Pillar 2 requirements may be postponed.

Summary analysis of the key features of the new Basel 2/3 based regulation and comparisons with the old capital regulation is provided below:

Feature	**NBG new Basel 2/3 based regulation, Pillar 1**	**NBG old regulation (no Pillar 2 or 3 existed)**
Tier 1 Capital Ratio requirement	8.5%	8%
Total Capital Ratio requirement	10.5%	12%
Level of consolidation	JSC Bank of Georgia stand-alone	JSC Bank of Georgia stand-alone
Input data based on	NBG unconsolidated (stand-alone) financial statements per NBG accounting standards	NBG unconsolidated (stand-alone) financial statements per NBG accounting standards
Capital composition	Basel 3 based: share capital, share premium (additionally paid-in capital), prior period retained earnings are all components of Tier 1; revaluation and other reserves are excluded from regulatory capital; current period profit or loss included in Tier 1; investments in financial institution subsidiaries, above the 10% allowed threshold of Tier 1, are deducted from Tier 1, while the allowed 10% of Tier 1 is risk-weighted at 250%; investments in non-financial institution subsidiaries are fully deducted from Tier 1; sub-debt definition applies “no step-up” requirement; amount of sub-debt to be added to Tier 2 is not limited	NBG discretion: share capital, share premium (additionally paid-in capital), prior period retained earnings are all components of Tier 1; revaluation and other reserves are excluded from regulatory capital; current period profit or loss included in Tier 2; all investments in all subsidiaries deducted from Tier 2; sub-debt definition does not apply “no step-up” requirement; amount of sub-debt to be added to Tier 2 is limited to 50% of total Tier 1
RWA: Cash and cash equivalents	0% risk weighted, except for cash in transit	0% risk-weighted, except for cash and cash equivalents denominated in non-OECD currencies
RWA: Foreign currency denominated balances placed with NBG (including	100% risk weighted	0% risk weighted

Feature	NBG new Basel 2/3 based regulation, Pillar 1	NBG old regulation (no Pillar 2 or 3 existed)
mandatory reserves)		
RWA: Inter-bank loans and deposits	Based on individual international ratings, or, in absence of such, based on the international rating of the country of incorporation	OECD placed loans and deposits risk weighted at 20%; non-OECD placed loans and deposits risk weighted at 100%; placements with resident banks risk weighted at 50%
RWA: Investment securities	Sovereign securities of Georgia denominated in local currency risk weighted at 0%; all other sovereigns risk-weighted based on the international rating of the country; investment securities issued by financial institutions risk weighted based on individual international ratings, or, in absence of such, based on the international rating of the country of incorporation; investment securities of non-financial institutions (commercial entities) risk weighted at 100%	Sovereign securities of Georgia denominated in local currency risk weighted at 0%; investment securities issued by local banks risk weighted at 50%; investments securities issued by OECD institutions risk weighted at 20%; all other investment securities risk weighted at 100%
RWA: Commercial loans	Commercial loans are risk-weighted at 100%	No segregation by types / categories of loans; all loans are risk-weighted at 100%
RWA: Mortgage loans	Mortgage loans are risk-weighted at 35% (only for the properties of up to 120 m^2)	No segregation by types / categories of loans; all loans are risk-weighted at 100%
RWA: Retail loans (all other)	Retail loans are risk-weighted at 75%	No segregation by types / categories of loans; all loans are risk-weighted at 100%
RWA: Market risk (on-balance sheet)	Additional 75% risk weight is applied to all on-balance sheet foreign currency denominated loan exposures, on top of their original credit risk weights	Additional 75% risk weight is applied to all on-balance sheet foreign currency denominated loan exposures, on top of their original credit risk weights
RWA: Loans fully secured with deposits	0% risk weight is applied	0% risk weight is applied
RWA: Credit risk mitigations, other than deposits	Gold pawns available for Retail loans providing 50% discount in the risk weight	No other mitigations available
RWA: Off-balance sheet items	For guarantees: differentiated, based on the type of the guarantee; for letters of credit: 50% credit conversion factor is further risk weighted at 100%; for undrawn credit commitments: 50% credit conversion factor is applied to credit cards and overdrafts and further	For guarantees: differentiated, based on the term of the guaranteed (short-term / long-term) and the type of guarantor; for letters of credit: differentiated, based on the term of the letter of credit (short-term / long-term) and the type of the guarantor; for undrawn credit

Feature	**NBG new Basel 2/3 based regulation, Pillar 1**	**NBG old regulation (no Pillar 2 or 3 existed)**
	risk weighted at 75%, and 0% for all other undrawn credit commitments	commitments: 100% credit conversion factor is applied to credit cards and overdrafts and further risk weighted at 100%, and 0% for all other undrawn credit commitments
RWA: Operational risk	Calculated using Basic Indicator Approach and the amount further divided by 10.5% and the product included in RWA	None
RWA: Market risk (FX)	Total open currency position added to RWA	None
RWA: Property leased out	250% risk weighted	100% risk weighted
RWA: All other assets	100% risk weighted	100% risk weighted

PRINCIPAL RISK AND UNCERTAINTIES

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

Macroeconomic Risks and Political Risks Related to Georgia

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

The Group'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. In June 2014, Georgia signed the Association Agreement with the EU, which includes the Deep and Comprehensive Free Trade Agreement, which may lead to a negative reaction from Russia against Georgia including economic measures such as the renewal of trade embargo in place from 2006 to 2012. Indeed, in July 2014, Russia suspended the Free Trade Agreement between Russia and Georgia of 1994, which may result in the increase of custom tariffs on Georgian imports to Russia to up to 20%. Russia accounted for 6.6% of Georgia's total exports in 2013 and 9.4% in the first six months of 2014.

In addition, in July/August 2014, there were renewed clashes between Georgia's neighbours, Azerbaijan and Armenia, whose relations have been tense for more than two decades, 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, while Georgia does not share a border with Ukraine, the Group may be affected by social, political and military unrest in relations between Russia and Ukraine in relation to Eastern Ukraine, Crimea or otherwise. The social unrest in Ukraine in early 2014 resulted in an escalation of military tensions between Russia and Ukraine. In particular, the escalation resulted in the annexation by Russia of the Ukrainian province of Crimea in March 2014 and has led to military actions between Ukrainian military and and pro-Russian separatists in Eastern Ukraine. This resulted in international uncertainty and periods of heightened volatility in financial markets and impacted the economic stability of Russia and Ukraine, and in political and economic sanctions being imposed by Western Governments against Russia. Ukraine accounted for 6.6% of Georgia's total exports in 2013 and 5.7% in the first six months of 2014. 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, 2013 and the first half of 2014. 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, and there has recently been a gradual further depreciation against the US dollar through to the second half of 2013 and the first half of 2014. 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 the first half of 2014, 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 Georgian Dream coalition, which won parliamentary elections in 2012 and presidential elections in 2013, sweeping the prior government, which had been in place since 2004, from power. Municipal elections were held in June 2014, which were also won by the incumbent Georgina Dream party, although second round run-offs were required in some major cities in Georgia including the capital Tbilisi in July 2014. On 2 August 2014, the Georgian court indicted Mikheil Saakashvili, the former President of Georgia and the leader of opposition United National Movement (UNM) party, which may lead to intensified polarisation between the Georgian Dream party and the UNM and may have a negative effect on the political stability in the country.

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 Parliamentary elections scheduled for 2016. 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 15.8% of total gross loans as of 30 June 2014 (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 88.1% of the Group's total gross loans as of 30 June 2014. 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. Interest rates have declined significantly in Georgia over the past several years, particularly in the corporate lending business. Despite declining deposit costs and cost of funding, the Group's NIM has been squeezed.

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 3 rules setting out certain changes to capital requirements applicable to banks. Implementation of the new combined regulation based on Basel 2/3 will occur at a national level in 2014. The NBG is currently in the process of implementing Basel 2/3 in Georgia. On 28 October 2013, the NBG published a regulation for capital adequacy based on Basel 2/3, which makes adjustments to certain Basel 2/3 rules, including those relating to foreign currency additional risk weights, specific measurements and risk estimates. Pillar I of the Basel 2/3 became effective on 1 July 2014, with Pillar 2 currently expected to come into force on 1 October 2014.

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. As of 30 June 2014, BNB was in compliance with the minimum capital requirements set by NBRB. However, no assurance can be given that the capital position of BNB will not deteriorate in the future.

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 implementing new initiatives, including structural reform of the universal healthcare system that implies centralised administration of Government-funded healthcare programs by the Social Service Agency (SSA) under the Ministry of Labour, Health and Social Affairs (MOLHSA), also implying redirection of administration of the Healthcare Programs previously administered by private insurance companies. While full implementation of the UHP will result in elimination in Government-funded insurance policies that Aldagi provides, thereby reducing Aldagi's revenues, any additional new initiative could have a material impact on the business, financial condition and results of operations of the Group in general, and on the Group's healthcare-related businesses.

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, subject to the risks inherent in the insurance and healthcare 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.

** On 1 August 2014, the Group announced the split of Aldagi into two separate business lines, and the respective rebranding of the new business entities. One business line is a pure play healthcare business, that will provide healthcare services (through Evex Medical Corporation, (Evex)) and health insurance products (through Imedi L) in Georgia. The Group expects to establish JSC Georgia Healthcare Group plc (GHG) which will ultimately own the healthcare business. The second business line is a P&C insurance business through JSC Insurance Company Aldagi* *that will continue providing life and non-life business insurance products and services in Georgia, retaining the brand name of Aldagi.*

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, the Government began to provide basic healthcare coverage to approximately 2.5 million previously uninsured individuals in Georgia. The Universal Healthcare Programme that commenced in March 2013, the implementation of which is expected to continue through the end of 2014, is administered by the SSA under the Ministry of Labour, Health and Social Affairs (MOLHSA), which previously administered Government-funded vertical healthcare programmes. The new Universal Healthcare Programme aims by the end of 2014 to gradually shift the administration of the existing Healthcare Programs that covered certain vulnerable citizens (such as pensioners, students and children) since 2007, to the SSA, away from private insurance companies.

The Group's insurance subsidiary, Aldagi, currently provides Government-funded insurance coverage to certain groups, such as pensioners, students and children that fall under the Universal Healthcare Programme. The full implementation of the new Healthcare Programme administered by the SSA 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. 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 30 June 2014, there were 21 commercial banks operating in Georgia, 19 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 and has written off the remaining shares in 1H 2014. 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 continues to hold its Belarussian operations in particular, 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 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 are 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 have become participating foreign financial institutions or are otherwise and deemed compliant with FATCA. While the Group believes that its preparations and options are sufficient to ensure compliance by the Group with FATCA, including on the basis that Georgia has reached an agreement in substance with the US Internal Revenue Service on a FATCA inter-governmental agreement, if entities within the Group suffer will not face 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, if FATCA process had not been implemented in the Group.

Other Risks Relating to Emerging Markets

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

RESPONSIBILITY STATEMENTS

We confirm that to the best of our knowledge:

- The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted by the European Union;
- The Interim Report 2014 includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- The Interim Report 2014 includes fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the board

Neil Janin	**Irakli Gilauri**
Chairman	Chief Executive

22 August 2014

CONSOLIDATED FINANCIAL STATEMENTS

Building a better working world

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INDEPENDENT REVIEW REPORT TO BANK OF GEORGIA HOLDINGS PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 which comprises the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows and related notes 1 to 22. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst + Young LLP

Ernst & Young LLP
London
22 August 2014

Interim Condensed Consolidated Statement of Financial Position
All Amounts are in Thousands of Georgian Lari

		As at	
	Notes	***30 June 2014***	***31 December 2013***
		Unaudited	
Assets			
Cash and cash equivalents	6	903,734	1,053,671
Amounts due from credit institutions	7	363,468	347,261
Investment securities available-for-sale	8	569,937	519,623
Loans to customers	9	3,615,995	3,477,309
Finance lease receivables		43,432	45,606
Investment properties	10	152,292	157,707
Property and equipment		534,289	470,669
Intangible assets		28,490	26,434
Goodwill		48,720	48,720
Current income tax assets		13,288	4,552
Deferred income tax assets		18,916	14,544
Prepayments		28,188	25,534
Other assets		346,932	329,339
Total assets		**6,667,681**	**6,520,969**
Liabilities			
Amounts due to customers	11	3,074,710	3,117,732
Amounts due to credit institutions	12	1,240,128	1,157,979
Debt securities issued	13	786,432	728,117
Current income tax liabilities		7,119	2,928
Deferred income tax liabilities		85,498	66,100
Provisions	15	6,047	481
Other liabilities		210,871	206,578
Total liabilities		**5,410,805**	**5,279,915**
Equity	14		
Share capital		1,081	1,028
Additional paid-in capital		33,409	23,843
Treasury shares		(46)	(56)
Other reserves		(82,318)	(16,399)
Retained earnings		1,249,580	1,174,124
Total equity attributable to shareholders of the Group		**1,201,706**	**1,182,540**
Non-controlling interests		55,170	58,514
Total equity		**1,256,876**	**1,241,054**
Total liabilities and equity		**6,667,681**	**6,520,969**

Irakli Gilauri — Chief Executive Officer

22 August 2014

The accompanying selected explanatory notes on pages 67to 91 are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Income Statement
All Amounts are in Thousands of Georgian Lari

	Notes	For the six months ended 30 June 2014 Unaudited	For the six months ended 30 June 2013 Unaudited
Interest income			
Loans to customers		258,571	260,047
Investment securities – available-for-sale		18,071	17,642
Amounts due from credit institutions		3,505	4,945
Finance lease receivables		4,498	3,208
		284,645	**285,842**
Interest expense			
Amounts due to customers		(66,987)	(85,538)
Amounts due to credit institutions		(30,970)	(33,434)
Debt securities issued		(26,430)	(16,191)
		(124,387)	**(135,163)**
Net interest income before net loss from interest rate swaps		**160,258**	**150,679**
Net loss from interest rate swaps		-	(185)
Net interest income		**160,258**	**150,494**
Fee and commission income		62,815	54,898
Fee and commission expense		(16,768)	(12,622)
Net fee and commission income	16	**46,047**	**42,276**
Net insurance premiums earned		54,618	64,289
Net insurance claims incurred		(38,560)	(41,565)
Net insurance revenue		**16,058**	**22,724**
Healthcare revenue		52,591	27,489
Cost of healthcare services		(32,855)	(18,498)
Net healthcare revenue		**19,736**	**8,991**
Net real estate revenue	17	11,793	2,599
Net gain from trading securities and investment securities available-for-sale		185	2,590
Net gain from revaluation of investment properties	10	-	4,842
Net gain from foreign currencies:			
– dealing		20,559	21,134
– translation differences		293	543
Other operating income		6,583	6,226
Other operating non-interest income		**39,413**	**37,934**
Revenue		**281,512**	**262,419**
Salaries and other employee benefits		(73,058)	(65,077)
General and administrative expenses		(34,688)	(29,764)
Depreciation and amortization		(13,806)	(13,339)
Other operating expenses		(1,762)	(1,184)
Operating expenses		**(123,314)**	**(109,364)**
Operating income before cost of credit risk		**158,198**	**153,055**

The accompanying selected explanatory notes on pages 67to 91 are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Income Statement (continued)
All Amounts are in Thousands of Georgian Lari

	Notes	*For the six months ended 30 June* 2014 *Unaudited*	*For the six months ended 30 June* 2013 *Unaudited*
Operating income before cost of credit risk		**158,198**	**153,055**
Impairment charge on loans to customers	9	(16,927)	(20,271)
Impairment charge on finance lease receivables		(358)	(2,704)
Impairment charge on other assets and provisions		(9,877)	(13,286)
Cost of credit risk		**(27,162)**	**(36,261)**
Operating income before net non-recurring items		**131,036**	**116,794**
Net non-recurring items	18	(8,198)	(5,453)
Profit before income tax expense		**122,838**	**111,341**
Income tax expense		(10,857)	(16,239)
Profit		**111,981**	**95,102**
Attributable to:			
– shareholders of the Group		108,346	91,735
– non-controlling interests		3,635	3,367
		111,981	**95,102**
Earnings per share, total:	14		
– basic and diluted earnings per share		3.1458	2.6956

The accompanying selected explanatory notes on pages 67to 91 are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Comprehensive Income
All Amounts are in Thousands of Georgian Lari

	For the six months ended 30 June	
	2014	***2013***
	Unaudited	*Unaudited*
Profit	**111,981**	**95,102**
Other comprehensive loss		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
– Unrealized revaluation (loss) gain of available-for-sale securities	(13,603)	2,544
– Realised loss (gain) on available-for-sale securities reclassified to the consolidated income statement	22	(2,514)
– Gain (loss) from currency translation differences	3,720	(12,186)
Income tax effect	(542)	1,919
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(10,403)**	**(10,237)**
Other comprehensive loss for the period, net of tax	**(10,403)**	**(10,237)**
Total comprehensive income for the period	**101,578**	**84,865**
Attributable to:		
– shareholders of the Group	98,811	82,097
– non-controlling interests	2,767	2,768
	101,578	**84,865**

The accompanying selected explanatory notes on pages 67to 91 are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Changes in Equity

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 2012	**957**	**14,767**	**(69)**	**14,097**	**981,322**	**1,011,074**	**48,438**	**1,059,512**
Total comprehensive income for the six months ended 30 June 2013 (unaudited)	-	-	-	25,441	56,656	82,097	2,768	84,865
Depreciation of revaluation reserve, net of tax	-	-	-	(267)	267	-	-	-
Increase in share capital arising from share-based payments	-	9,708	19	-	-	9,727	-	9,727
GBP-GEL translation effect	(54)	-	3	(72)	123	-	-	-
Dividends to shareholders of the Group (Note 14)	-	-	-	-	(49,483)	(49,483)	-	(49,483)
Dilution of interests in subsidiaries, through issuance of new shares	-	-	-	-	-	-	150	150
Acquisition of non-controlling interests in existing subsidiaries	-	-	-	10	-	10	2,957	2,967
Purchase of treasury shares	-	(4,830)	(3)	-	-	(4,833)	-	(4,833)
30 June 2013 (Unaudited)	**903**	**19,645**	**(50)**	**39,209**	**988,885**	**1,048,592**	**54,313**	**1,102,905**
31 December 2013	**1,028**	**23,843**	**(56)**	**(16,399)**	**1,174,124**	**1,182,540**	**58,514**	**1,241,054**
Total comprehensive income for the six months ended 30 June 2014 (unaudited)	-	-	-	(49,004)	147,815	98,811	2,767	101,578
Depreciation of property and equipment revaluation reserve, net of tax	-	-	-	(213)	213	-	-	-
Increase in share capital arising from share-based payments	-	14,027	70	-	-	14,097	-	14,097
GBP-GEL translation effect	53	-	(2)	888	(939)	-	-	-
Dividends to shareholders of the Group (Note 14)	-	-	-	-	(71,633)	(71,633)	-	(71,633)
Acquisition of non-controlling interests in existing subsidiaries (Note 14)	-	-	-	(17,590)	-	(17,590)	(15,516)	(33,106)
Non-controlling interests arising on acquisition of subsidiary (Note 4)	-	-	-	-	-	-	9,405	9,405
Purchase of treasury shares	-	(4,461)	(58)	-	-	(4,519)	-	(4,519)
30 June 2014 (Unaudited)	**1,081**	**33,409**	**(46)**	**(82,318)**	**1,249,580**	**1,201,706**	**55,170**	**1,256,876**

The accompanying selected explanatory notes on pages 67to 91 are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flows
All Amounts are in Thousands of Georgian Lari

	Notes	*For the six months ended 30 June* 2014 Unaudited	2013 Unaudited
Cash flows from operating activities			
Interest received		281,327	276,486
Interest paid		(146,966)	(131,716)
Fees and commissions received		62,762	54,898
Fees and commissions paid		(16,368)	(12,622)
Insurance premiums received		51,264	64,289
Insurance claims paid		(38,521)	(41,565)
Healthcare revenue received		33,812	27,489
Cost of healthcare services paid		(31,839)	(18,498)
Net cash inflow from real estate		24,727	2,599
Net cash inflow from sale of trading securities		314	76
Net cash (outflow) inflow from investment securities available-for-sale		(22)	2,514
Net realised gains from foreign currencies		18,661	21,134
Recoveries of loans to customers previously written off	9	13,465	17,033
Other (expenses paid) income received		(3,215)	1,964
Salaries and other employee benefits paid		(62,766)	(62,773)
General and administrative and operating expenses paid		(34,756)	(38,798)
Cash flows from operating activities before changes in operating assets and liabilities		**151,879**	**162,510**
Net (increase) decrease in operating assets			
Amounts due from credit institutions		(16,173)	69,869
Loans to customers		(170,142)	(131,045)
Finance lease receivables		1,089	(517)
Prepayments and other assets		126	(22,362)
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions		75,938	(184,602)
Debt securities issued		59,384	3,023
Amounts due to customers		(23,346)	153,680
Other liabilities		(10,011)	7,512
Net cash flows from operating activities before income tax		**68,744**	**58,068**
Income tax paid		(5,029)	(16,624)
Net cash flows from operating activities		**63,715**	**41,444**
Cash flows (used in) from investing activities			
Acquisition of subsidiaries, net of cash acquired	4	(20,987)	-
Purchase of investment securities available-for-sale		(65,795)	(182,360)
Proceeds from sale of investment properties	10	4,763	9,726
Proceeds from sale of property and equipment and intangible assets		1,494	-
Purchase of property and equipment and intangible assets		(29,602)	(30,632)
Net cash flows used in investing activities		**(110,127)**	**(203,266)**

The accompanying selected explanatory notes on pages 67to 91 are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flows (continued)
All Amounts are in Thousands of Georgian Lari

	Notes	For the six months ended 30 June 2014	For the six months ended 30 June 2013
		Unaudited	*Unaudited*
Cash flows used in financing activities			
Dividends paid		(69,696)	(49,483)
Purchase of treasury shares		(4,519)	(4,833)
Purchase of additional interests in existing subsidiaries, net of cash acquired		(29,603)	-
Net cash used in financing activities		**(103,818)**	**(54,316)**
Effect of exchange rates changes on cash and cash equivalents		293	715
Net decrease in cash and cash equivalents		**(149,937)**	**(215,423)**
Cash and cash equivalents, beginning	6	**1,053,671**	**762,827**
Cash and cash equivalents, ending	6	**903,734**	**547,404**

The accompanying selected explanatory notes on pages 67to 91 are an integral part of these interim condensed consolidated financial statements.

(Thousands of Georgian Lari)

1. Principal Activities

JSC Bank of Georgia (the "Bank") was established on 21 October 1994 as a joint stock company ("JSC") under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG"; the Central Bank of Georgia) on 15 December 1994. The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally and exchanges currencies. Its main office is in Tbilisi, Georgia. At 30 June 2014 the Bank has 206 operating outlets in all major cities of Georgia (31 December 2013: 202). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

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

Bank of Georgia Holdings PLC ("BGH"), a public limited liability company incorporated in England and Wales that holds 99.62% of the share capital of the Bank as at 30 June 2014, representing the Bank's ultimate parent company. Together with the Bank's subsidiaries, BGH makes up a group of companies (the "Group"). The shares of BGH ("BGH Shares") are admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 28 February 2012. The Bank is the Group's main operating unit and accounts for most of its activities. Bank of Georgia Holdings PLC's registered legal address is 84 Brook Street, London, United Kingdom W1IK 5EH.

As at 30 June 2014 and 31 December 2013 the following shareholders owned more than 5% of the outstanding shares of the Group. Other shareholders individually owned less than 5% of the outstanding shares.

Shareholder	***30 June 2014***	***31 December 2013***
Schroders Investment Management	11.89%	3.06%
Franklin Templeton Investments	5.11%	7.21%
European Bank for Reconstruction & Development	5.06%	5.06%
International Finance Corporation	-	5.06%
Others	77.94%	79.61%
Total*	**100.00%**	**100.00%**

** For the purposes of calculating percentage of shareholding, the denominator includes total number of issued shares, which includes shares held in the trust for the share-based compensation purposes of the Bank.*

As at 30 June 2014, the members of the Board of Directors of BGH and members of the Supervisory Board and Management Board of the Bank owned 538,832 shares or 1.5% (31 December 2013: 413,932 shares or 1.2%) of the Group.

Shareholder	***30 June 2014, shares held***	***31 December 2013, shares held***
Irakli Gilauri	153,561	60,831
Giorgi Chiladze	98,800	82,000
Avto Namicheishvili	89,200	50,000
Sulkhan Gvalia	56,837	37,237
Mikheil Gomarteli	44,400	35,000
David Morrison	26,357	26,357
Kaha Kiknavelidze	26,337	26,337
Neil Janin	25,729	25,729
Al Breach	14,279	14,279
Nikoloz Gamkrelidze	2,082	-
Kim Bradley	1,250	-
Allan Hirst*	-	48,434
Ian Hague*	-	5,112
Hanna Loikkanen*	-	2,616
Total	**538,832**	**413,932**

** Stepped down from the Board of Directors of the BGH and the Supervisory Board of the Bank on 19 December 2013.*

2. Basis of Preparation

General

The financial information set out in these interim condensed consolidated financial statements does not constitute the Group's statutory financial statements within the meaning of section 435 of the Companies Act 2006. Those financial statements were prepared for the year ended 31 December 2013 under IFRS, as adopted by the European Union and have been reported on by BGH's auditors and delivered to the Registrar of Companies. The auditor's report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted by the European Union. The Group's annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at and for the year ended 31 December 2013.

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

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

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.

3. Summary of Selected Significant Accounting Policies

Accounting policies

The accounting policies and methods of computation applied in the preparation of these condensed interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group as at and for the year ended 31 December 2013.

Reclassifications

Due to the increased material size of real estate related revenues, a separate line was added to the income statement within other operating non-interest income with the sum of these revenues. The following reclassification was made to the six months ended 30 June 2013 income statement to conform to the six months ended 30 June 2014 presentation requirements:

Six Month Period Ended	**Caption**			
	Consolidated Income Statement:	***As previously reported***	***Reclassification***	***As reclassified***
30 June 2013	Revenue from sale of goods	16,564	(16,564)	–
30 June 2013	Cost of sales	(11,486)	11,486	–
30 June 2013	Net real estate revenue	–	2,599	2,599
30 June 2013	Other operating income	4,004	2,222	6,226
30 June 2013	Other operating expenses	(1,441)	257	(1,184)

3. Summary of Selected Significant Accounting Policies (continued)

Reclassifications (continued)

Due to the increased number of different debt securities issued in 2014, a separate line was added to the statement of financial position with the aggregated amount of such instruments. Respective changes were made to the income statement, where a separate line was added with the total amount of interest expenses on such instruments. The following reclassifications were made to the six months ended 30 June 2013 income statement and 31 December 2013 statement of financial position to conform to the 30 June 2014 presentation requirements:

Six Month Period Ended	**Caption**			
	Consolidated Statement of Financial Position:	***As previously reported***	***Reclassification***	***As reclassified***
31 December 2013	Amounts due to credit institutions	1,886,096	(728,117)	1,157,979
31 December 2013	Debt securities issued	–	728,117	728,117

Six Month Period Ended	**Caption**			
	Consolidated Income Statement:	***As previously reported***	***Reclassification***	***As reclassified***
30 June 2013	Interest expense on amounts due to credit institutions	(49,625)	16,191	(33,434)
30 June 2013	Interest expense on debt securities issued	–	(16,191)	(16,191)

Deriving from the above mentioned reclassifications in the income statement and the statement of financial position the following reclassifications were made to the six months ended 30 June 2013 statement of cash flows, to conform to the six months ended 30 June 2014 presentation requirements:

Six Month Period Ended	**Caption**			
	Consolidated Statement of Cash Flows:	***As previously reported***	***Reclassification***	***As reclassified***
30 June 2013	Revenue received from sale of goods	16,564	(16,564)	–
30 June 2013	Cost of sales of goods	(11,486)	11,486	–
30 June 2013	Net cash inflow from real estate	–	2,599	2,599
30 June 2013	Other operating income received (expenses paid)	(515)	2,479	1,964
30 June 2013	Net increase (decrease) in operating liabilities from amounts due to credit institutions	(181,579)	(3,023)	(184,602)
30 June 2013	Net increase (decrease) in operating liabilities from debt securities issued	–	3,023	3,023

Functional and reporting currencies and foreign currency translation

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

3. Summary of Selected Significant Accounting Policies (continued)

Functional and reporting currencies and foreign currency translation (continued)

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing) of the Bank. The official NBG exchange rates at 30 June 2014 and 31 December 2013 were:

	Lari to GBP	*Lari to USD*	*Lari to EUR*	*Lari to UAH (10)*	*Lari to BYR (10,000)*
30 June 2014	3.0114	1.7691	2.4081	1.4873	1.7344
31 December 2013	2.8614	1.7363	2.3891	2.1723	1.8258

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

Changes in accounting judgments and estimates

On 1 January 2014 the Bank introduced its new loan loss provisioning methodology. Management of the Bank considers it a change in significant accounting estimate. As opposed to previous approach, the methodology introduces PD, LGD, concept for a Default is directly integrated into the estimation model and is more granular and precise. As at 1 January 2014 loan loss reserves (allowance for loan impairment) of the Bank per new methodology was GEL 114,552 thousand, a difference of GEL 3,843 thousand as compared to loan loss reserves (allowance for loan impairment) if calculated based on the previous methodology. Allowance for loan impairment per old methodology as at 1 January 2014 comprised GEL 118,395 thousand. After 1 January 2015 management of the Bank ceased estimation of loan loss provisions per old methodology due to its impracticability. Compared to the new methodology, the old methodology was based on a non-statistical approach and was less granular, more judgment was involved. Additionally, as management estimated, the net difference in total allowance between the two methodologies was immaterial, less than 3.5% of total allowance. Therefore, it was considered impracticable to follow the old methodology in parallel with the new one. In practice management of the Bank estimates its credit risk and manages its loan loss provision based on the new methodology only.

4. Business Combination

Acquisition of Avante Hospital Management Group LLC and Sunstone Medical LLC

On 20 February 2014 Unimed Kakheti LLC (“Acquirer”), a wholly owned subsidiary of the Group, acquired 80% of shares in Avante Hospital Management Group LLC (“Acquiree 1”), a healthcare company operating in Georgia from individuals. Remaining 20% of the Avante Hospital Management Group was acquired on 5 March 2014 from individuals.

On 21 May 2014 Avante Management Hospital Group LLC, acquired 100% of shares in Sunstone Medical LLC (“Acquiree 2”), a healthcare company operating in Georgia from Sunstone Data Technologies LLC.

The provisionally estimated fair values of identifiable assets and liabilities of both acquirees as at the date of acquisition were:

4. Business Combination (continued)

	Provisional fair value recognized on acquisition
Cash and cash equivalents	1,227
Accounts receivable [1]	7,877
Property and equipment	50,066
Prepayments	61
Other assets	2,504
	61,735
Amounts due to credit institutions	9,967
Accounts payable	5,341
Current income tax liabilities	1,542
Deferred income tax liabilities	3,654
Accruals and deferred income	110
Other liabilities	2,463
	23,077
Total identifiable net assets	**38,658**
Non-controlling interest	9,107
Negative goodwill arising on acquisition [2]	(851)
Consideration given [3]	**28,700**

The net cash outflow on acquisition was as follows:

	Six months ended 30 June 2014
Cash paid	22,214
Cash acquired with the subsidiary	(1,227)
Net cash outflow	**20,987**

The Group decided to increase their presence and investment in Tbilisi healthcare market, by acquiring the given group, thus securing a leading position in the growing healthcare sector. Management considers that the deal will have positive impact on the value of the Group.

Since the acquisition date, the Group recorded GEL 197,973 and GEL 84,594 of revenue and profit, respectively. In the same period, GEL 15,013 and GEL 3,314 of revenue and profit, respectively comes from the Acquirees. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 286,299 and GEL 112,479 of revenue and profit respectively.

The net assets as well as the amount of negative goodwill presented above are estimated provisionally as at the issue date. The Group continues thorough full examination of these net assets and if identified adjustments will be made to the net assets and amount of the negative goodwill during the twelve month period from the acquisition date, as allowed by "Business Combinations" (IFRS 3).

1. The fair value of the accounts receivables amounted to GEL 7,877. The gross amount of receivable is GEL 17,879. GEL 10,002 of the accounts receivable has been impaired;
2. Prior to acquisition, owners of Avante Group encountered certain financial difficulties which resulted in a lower acquisition cost causing a negative goodwill, recognized as gain;
3. Consideration comprised of GEL 29,838, which consists of GEL 22,214 cash payment and GEL 7,624 fair value of a holdback amount, less GEL 1,138 pre-existing payables to Avante Hospital Management Group LLC.

5. Segment Information

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

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

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

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

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

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

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

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

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

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

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

Other - Mainly 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 during the six months ended 30 June 2014 and 30 June 2013.

5. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as at and for the six months ended 30 June 2014 (unaudited):

	Strategic				*Synergistic*				*Non-Core*				
	Corporate banking	*Retail banking*	*Investment management*	*Corporate center*	*Insurance*	*Healthcare*	*Affordable Housing*	*BG Capital*	*BNB**	*Liberty Consumer*	*Other*	*Intersegment transactions and balances*	*Total*
Net interest income	48,511	100,220	5,615	-	395	(6,142)	187	176	11,175	(434)	(1,707)	2,262	160,258
Net fees and commission income	12,014	26,560	397	(204)	147	(86)	-	4,234	4,342	(22)	(1)	(1,334)	46,047
Net insurance revenue	-	-	-	-	13,177	-	-	-	-	-	-	2,881	16,058
Net healthcare revenue	-	-	-	-	-	24,219	-	-	-	-	-	(4,483)	19,736
Real estate income	1,336	1,690	2	-	2	-	9,677	-	270	1	18	(1,203)	11,793
Net gain from foreign currencies	11,542	8,619	455	(263)	288	(2,027)	73	(2)	2,928	(128)	(633)	-	20,852
Other revenues	195	173	-	-	288	208	34	199	2	5,613	1,347	(1,291)	6,768
Revenue	**73,598**	**137,262**	**6,469**	**(467)**	**14,297**	**16,172**	**9,971**	**4,607**	**18,717**	**5,030**	**(976)**	**(3,168)**	**281,512**
Operating expenses	(23,954)	(61,967)	(4,300)	(2,107)	(7,782)	(10,061)	(2,774)	(347)	(8,639)	(3,707)	(842)	3,166	(123,314)
Operating income before cost of credit risk	**49,644**	**75,295**	**2,169**	**(2,574)**	**6,515**	**6,111**	**7,197**	**4,260**	**10,078**	**1,323**	**(1,818)**	**(2)**	**158,198**
Cost of credit risk	(23,656)	(342)	94	-	(590)	(820)	(30)	-	(1,601)	-	-	(217)	(27,162)
Operating income before net non-recurring items	**25,988**	**74,953**	**2,263**	**(2,574)**	**5,925**	**5,291**	**7,167**	**4,260**	**8,477**	**1,323**	**(1,818)**	**(219)**	**131,036**
Net non-recurring items	(2,453)	(4,767)	(265)	-	-	1,375	18	(1)	(2,115)	10	-	-	(8,198)
Profit before income tax expense	**23,535**	**70,186**	**1,998**	**(2,574)**	**5,925**	**6,666**	**7,185**	**4,259**	**6,362**	**1,333**	**(1,818)**	**(219)**	**122,838**
Income tax expense	(2,320)	(6,258)	(170)	3,509	(986)	(506)	(974)	(678)	(1,932)	(729)	187	-	(10,857)
Profit	**21,215**	**63,928**	**1,828**	**935**	**4,939**	**6,160**	**6,211**	**3,581**	**4,430**	**604**	**(1,631)**	**(219)**	**111,981**
Assets and liabilities													
Total assets	2,928,441	2,894,265	23,240	5,439	147,116	279,862	209,362	18,955	327,100	38,894	27,160	(232,153)	6,667,681
Total liabilities	2,214,303	2,014,208	751,841	532	107,360	159,214	102,447	10,456	245,465	16,924	21,425	(233,370)	5,410,805
Other segment information													
Property and equipment	1,557	11,993	141	-	474	9,209	135	168	1,050	1,011	42	-	25,780
Intangible assets	495	2,434	35	-	28	624	24	-	158	21	3	-	3,822
Capital expenditure	**2,052**	**14,427**	**176**	**-**	**502**	**9,833**	**159**	**168**	**1,208**	**1,032**	**45**	**-**	**29,602**
Depreciation	(1,585)	(8,179)	(135)	-	(400)	(3,388)	(202)	(21)	(718)	(512)	(2)	-	(15,142)
Amortization	(304)	(1,664)	(22)	-	(174)	-	(24)	-	(48)	(17)	-	-	(2,253)

*JSC Belarusky Narodny Bank (BNB)

5. Segment Information (continued)

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments for the six months ended 30 June 2013 (unaudited) and as at 31 December 2013:

	Strategic				*Synergistic*				*Non-Core*				
	Corporate banking	*Retail banking*	*Investment management*	*Corporate center*	*Insurance*	*Healthcare*	*Affordable Housing*	*BG Capital*	*BNB**	*Liberty Consumer*	*Other*	*Intersegment transactions and balances*	*Total*
Net interest income	50,460	91,064	4,553	-	1,357	(6,267)	1,037	302	8,370	(270)	(1,355)	1,243	150,494
Net fees and commission income	14,372	25,322	284	(79)	87	(188)	(18)	533	2,802	(18)	-	(821)	42,276
Net insurance revenue	-	-	-	-	17,670	-	-	-	-	-	-	5,054	22,724
Net healthcare revenue	-	-	-	-	-	15,469	-	-	-	-	-	(6,478)	8,991
Real estate income	1,303	934	10	-	193	354	795	-	21	4	4	(1,019)	2,599
Net gain from foreign currencies	12,536	7,062	774	-	(205)	238	(44)	(18)	1,388	(59)	5	-	21,677
Other revenues	1,849	1,584	14	-	200	508	4,846	77	22	4,871	708	(1,021)	13,658
Revenue	**80,520**	**125,966**	**5,635**	**(79)**	**19,302**	**10,114**	**6,616**	**894**	**12,603**	**4,528**	**(638)**	**(3,042)**	**262,419**
Operating expenses	(20,751)	(60,375)	(2,656)	(1,950)	(8,032)	(6,558)	(1,103)	1	(6,689)	(3,017)	(1,278)	3,044	(109,364)
Operating income before cost of credit risk	**59,769**	**65,591**	**2,979**	**(2,029)**	**11,270**	**3,556**	**5,513**	**895**	**5,914**	**1,511**	**(1,916)**	**2**	**153,055**
Cost of credit risk	(17,191)	(17,470)	262	-	(631)	(789)	66	-	(626)	-	-	118	(36,261)
Operating income before net non-recurring items	**42,578**	**48,121**	**3,241**	**(2,029)**	**10,639**	**2,767**	**5,579**	**895**	**5,288**	**1,511**	**(1,916)**	**120**	**116,794**
Net non-recurring items	(1,016)	(540)	(25)	-	-	-	(493)	159	(790)	(2,748)	-	-	(5,453)
Profit before income tax expense	**41,562**	**47,581**	**3,216**	**(2,029)**	**10,639**	**2,767**	**5,086**	**1,054**	**4,498**	**(1,237)**	**(1,916)**	**120**	**111,341**
Income tax expense	(5,973)	(6,016)	(402)	-	(1,733)	(224)	(662)	(197)	(1,239)	(148)	355	-	(16,239)
Profit	**35,589**	**41,565**	**2,814**	**(2,029)**	**8,906**	**2,543**	**4,424**	**857**	**3,259**	**(1,385)**	**(1,561)**	**120**	**95,102**
Assets and liabilities													
Total assets	3,085,647	2,689,011	18,186	5,178	176,656	200,945	135,994	9,162	326,465	41,498	21,799	(189,572)	6,520,969
Total liabilities	2,344,860	1,830,958	679,401	342	120,883	137,738	59,021	4,636	254,451	18,926	19,706	(191,007)	5,279,915
Other segment information													
Property and equipment	1,383	12,732	154	-	543	22,209	-	2	364	227	1	-	37,615
Intangible assets	402	2,555	32	-	841	125	-	-	44	9	1	-	4,009
Capital expenditure	**1,785**	**15,287**	**186**	**-**	**1,384**	**22,334**	**-**	**2**	**408**	**236**	**2**	**-**	**41,624**
Depreciation	(1,364)	(8,105)	(148)	-	(425)	(24)	(24)	(7)	(789)	(508)	(30)	-	(11,424)
Amortization	(233)	(1,499)	(18)	-	(109)	-	(1)	-	(54)	-	(1)	-	(1,915)

*JSC Belarusky Narodny Bank (BNB)

6. Cash and Cash Equivalents

	As at	
	30 June 2014 (unaudited)	*31 December 2013*
Cash on hand	263,636	384,410
Current accounts with central banks, excluding obligatory reserves	85,426	132,219
Current accounts with other credit institutions	297,155	357,447
Time deposits with credit institutions with maturity of up to 90 days	257,517	179,595
Cash and cash equivalents	**903,734**	**1,053,671**

As at 30 June 2014 GEL 523,619 (31 December 2013: GEL 485,740) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 2.00% interest per annum on these deposits (31 December 2013: 6.92%).

7. Amounts Due from Credit Institutions

	As at	
	30 June 2014 (unaudited)	***31 December 2013***
Obligatory reserves with central banks	342,542	330,319
Time deposits with maturity of more than 90 days	14,954	9,623
Inter-bank loan receivables	5,972	7,319
Amounts due from credit institutions	**363,468**	**347,261**

Obligatory reserves with central banks represent amounts deposited with the NBG and the NBRB (National Bank of the Republic of Belarus). Credit institutions are required to maintain cash deposit (obligatory reserve) with central banks, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the statutory legislature. The Group did not earn any interest on obligatory reserves with NBG or NBRB during the six months ended 30 June 2014 and 30 June 2013.

As at 30 June 2014 inter-bank loans and receivables include GEL 5,972 (31 December 2013: GEL 4,685) placed with non-OECD banks.

8. Investment Securities Available-for-sale

Available-for-sale securities comprise:

	As at	
	30 June 2014 (unaudited)	***31 December 2013***
Ministry of Finance treasury bonds*	374,967	391,486
Ministry of Finance treasury bills**	145,846	63,606
Corporate bonds***	38,868	-
Certificates of deposit of central banks****	8,846	59,265
Corporate shares	1,410	5,266
Investment securities available-for-sale	**569,937**	**519,623**

**** GEL 288,406 was pledged for short-term loans from the National Bank of Georgia (31 December 2013: GEL 200,065).***
***** GEL 9,761 was pledged for short-term loans from the National Bank of Georgia (31 December 2013: GEL 19,773).***
****** GEL 25,082 was pledged for short-term loans from the National Bank of Georgia (31 December 2013: nil).***
******* No certificates of deposits of central banks were pledged for short-term loans from the National Bank of Georgia (31 December 2013: GEL 30,328).***

Corporate shares as at 30 June 2014 include real estate company of GEL 1,145 (31 December 2013: GEL 1,145).

9. Loans to Customers

	As at	
	30 June 2014 (unaudited)	***31 December 2013***
Commercial loans	1,834,032	1,862,667
Consumer loans	690,276	660,220
Micro and SME loans	645,979	566,273
Residential mortgage loans	493,621	447,063
Gold – pawn loans	59,967	61,871
Loans to customers, gross	**3,723,875**	**3,598,094**
Less – Allowance for loan impairment	(107,880)	(120,785)
Loans to customers, net	**3,615,995**	**3,477,309**

9. Loans to Customers (continued)

Allowance for loan impairment

Movements of the allowance for impairment of loans to customers by class are as follows:

	Commercial loans	*Consumer loans*	*Residential mortgage loans*	*Micro and SME loans*	*Total*
	2014	*2014*	*2014*	*2014*	*2014*
At 1 January	**90,949**	**20,772**	**3,093**	**5,971**	**120,785**
Charge (reversal)	15,767	5,146	(1,373)	(2,613)	16,927
Recoveries	1,798	7,194	2,459	2,014	13,465
Write-offs	(23,326)	(9,169)	(2,104)	(2,402)	(37,001)
Interest accrued on impaired loans	(3,992)	(1,350)	(606)	(176)	(6,124)
Currency translation differences	(69)	(17)	-	(86)	(172)
At 30 June	**81,127**	**22,576**	**1,469**	**2,708**	**107,880**

	Commercial loans	*Consumer loans*	*Residential mortgage loans*	*Micro and SME loans*	*Total*
	2013	*2013*	*2013*	*2013*	*2013*
At 1 January	**78,198**	**20,249**	**9,713**	**1,877**	**110,037**
Charge (reversal)	3,892	20,910	(5,924)	1,393	20,271
Recoveries	6,477	6,460	2,566	2,255	17,758
Write-offs	(3,887)	(19,486)	(1,736)	(1,886)	(26,995)
Interest accrued on impaired loans	(128)	(2,972)	(785)	(138)	(4,023)
Currency translation differences	(110)	(6)	-	(10)	(126)
At 30 June	**84,442**	**25,155**	**3,834**	**3,491**	**116,922**

Concentration of loans to customers

As at 30 June 2014 concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 588,746 accounting for 16% of the gross loan portfolio of the Group (31 December 2013: GEL 610,916 and 17% respectively). An allowance of GEL 5,242 (31 December 2013: GEL 22,740) was established against these loans.

As at 30 June 2014, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 877,278 accounting for 24% of the gross loan portfolio of the Group (31 December 2013: GEL 912,106 and 25% respectively). An allowance of GEL 7,903 (31 December 2013: GEL 9,345) was established against these loans.

9. Loans to Customers (continued)

Concentration of loans to customers (continued)

As at 30 June 2014 and 31 December 2013 loans are principally issued within Georgia, and their distribution by industry sector is as follows:

	As at	
	30 June 2014 (unaudited)	***31 December 2013***
Individuals	1,545,168	1,411,957
Trade	382,778	375,510
Consumer Production	312,855	329,309
Heavy Industry	294,684	319,352
Real Estate Development	276,258	258,913
Infrastructure Development	176,952	161,448
Services	162,130	137,509
Energy	158,698	179,011
Tourism & Hospitality	132,238	122,515
Agriculture	101,553	113,866
Telecommunication	63,394	80,455
Healthcare	37,115	31,611
Others	80,052	76,638
Loans to customers, gross	**3,723,875**	**3,598,094**
Less – allowance for loan impairment	(107,880)	(120,785)
Loans to customers, net	**3,615,995**	**3,477,309**

Loans have been extended to the following types of customers:

	As at	
	30 June 2014 (unaudited)	***31 December 2013***
Private companies	2,127,950	2,081,192
Individuals	1,545,168	1,411,958
State-owned entities	50,757	104,944
Loans to customers, gross	**3,723,875**	**3,598,094**
Less – allowance for loan impairment	(107,880)	(120,785)
Loans to customers, net	**3,615,995**	**3,477,309**

10. Investment Properties

	2014	***2013***
At 1 January	**157,707**	**160,353**
Additions*	4,325	15,032
Disposals	(4,763)	(9,726)
Net gains from revaluation of investment property	-	4,842
Transfers from (to) finance lease receivables and other assets	(11,369)	(779)
Hyperinflation effect	264	-
Currency translation differences	6,128	-
At 30 June (unaudited)	**152,292**	**169,722**

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

10. Investment Properties (continued)

Investment properties are stated at fair value, which has been determined based on the valuation performed by a professional valuation company, an accredited independent appraiser, as at 31 December 2013. The appraiser is an industry specialist in valuing these types of investment properties. Fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The management regularly monitors market prices on investment properties and performs valuation when significant changes to the market prices are evident. In the view of the management, no significant changes in the value of investment properties took place during the six months ended 30 June 2014. Rental income arising from investment properties for the six months ended 30 June 2014 and 30 June 2013 comprised GEL 1,945 and GEL 1,825 respectively.

11. Amounts Due to Customers

The amounts due to customers include the following:

	As at	
	30 June 2014 (unaudited)	***31 December 2013***
Time deposits	1,539,369	1,593,171
Current accounts	1,507,476	1,514,038
Promissory notes issued	27,865	10,523
Amounts due to customers	**3,074,710**	**3,117,732**
Held as security against letters of credit and guarantees (Note15)	**24,658**	**53,903**

As at 30 June 2014 and 31 December 2013, promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. The average remaining maturity of the notes is 7 months (31 December 2013: 12 months). At 30 June 2014, GEL 374,946 (12%) was due to the 10 largest customers (31 December 2013: GEL 436,694 (14%)).

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

	As at	
	30 June 2014 (unaudited)	***31 December 2013***
Private enterprises	1,183,206	1,392,577
Individuals	1,610,821	1,554,781
State and budget organizations	280,683	170,374
Amounts due to customers	**3,074,710**	**3,117,732**

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

	As at	
	30 June 2014 (unaudited)	***31 December 2013***
Individuals	1,610,821	1,554,781
Services	586,944	583,713
Energy	185,100	305,341
Infrastructure Development	124,108	198,399
Trade	114,705	127,887
Consumer Production	106,590	42,576
Heavy Industry	101,786	51,972
Telecommunication	56,522	33,220
Real Estate Development	43,327	35,528
Agriculture	35,227	27,419
Tourism & Hospitality	30,788	28,649
Healthcare	18,179	18,183
Other	60,613	110,064
Amounts due to customers	**3,074,710**	**3,117,732**

12. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	As at	
	30 June 2014 (unaudited)	***31 December 2013***
Borrowings from international credit institutions	484,300	504,943
Short-term loans from the National Bank of Georgia	317,031	250,138
Time deposits and inter-bank loans	278,996	221,267
Correspondent accounts	27,001	12,921
Subtotal	**1,107,328**	**989,269**
Non-convertible subordinated debt	132,800	168,710
Amounts due to credit institutions	**1,240,128**	**1,157,979**

During the six months ended 30 June 2014 the Group received short-term funds from Georgian banks in different currencies.

During the six months ended 30 June 2014 the Group paid up to 5.19% on USD borrowings from international credit institutions (30 June 2013: up to 6.23%). During the six months ended 30 June 2014 the Group paid up to 7.75% on USD subordinated debt (30 June 2013: up to 11.33%).

Some long-term borrowings from international credit institutions are subject to certain conditions (the “Lender Covenants”). These covenants require the Group to maintain different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 30 June 2014 and 31 December 2013 the Group complied with all the Lender Covenants of the borrowings from international credit institutions.

13. Debt Securities Issued

Debt securities issued comprise:

	As at	
	30 June 2014 (unaudited)	***31 December 2013***
Eurobonds	740,246	728,117
Georgian local bonds	26,288	-
Certificates of deposit	15,669	-
Belarusian local bonds	4,229	-
Debt securities issued	**786,432**	**728,117**

In June 2014, the Group’s real estate subsidiary JSC m2 completed the issuances of 1-year local bonds of USD 10 million and USD 5 million. The bonds were issued at par with 8.42% and 9.5% respectively payable upon maturity with 5% withholding tax applying to individuals.

In January 2014, the Bank issued USD 3 million and EUR 4.2 million certificates of deposit with a fixed 5.25% semi-annual coupon. The certificates of deposit were issued pursuant to the applicable regulations of International Securities Market Advisory Group (“ISMAG”) and with regard to any registration, filing or similar requirement of the international clearing systems Euroclear and Clearstream. Certificates of Deposit may be freely resold or otherwise assigned to any third party without prior notification of the Bank.

13. Debt Securities Issued (continued)

On 6 November 2013, the Bank completed the issuance of its USD 150 million (GEL 251 million) 7.75% notes due 2017, consolidated and forming a single series with the USD 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 advisors to the Joint Lead Managers and the Bank, respectively. The Notes are rated BB- (Fitch) / Ba3 (Moody's) / BB- (Standard & Poor's). The notes are listed on the Official List of the UK Listing Authority and have been admitted to trading on the London Stock Exchange's Regulated Market.

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

14. Equity

Share capital

As at 30 June 2014, issued share capital comprised 35,909,383 common shares, of which 35,909,383 were fully paid (31 December 2013: 35,909,383, of which 35,909,383 were issued and fully paid). Each share has a nominal value of one (1) British Penny (31 December 2013: one (1) British Penny). Shares issued and outstanding as at 30 June 2014 are described below:

	Number of shares Ordinary	***Amount of shares Ordinary***
31 December 2012	**35,909,383**	**957**
Effect of translation of equity components to presentation currency	-	(54)
30 June 2013 (Unaudited)	**35,909,383**	**903**
31 December 2013	**35,909,383**	**1,028**
Effect of translation of equity components to presentation currency	-	53
30 June 2014 (Unaudited)	**35,909,383**	**1,081**

BGH's shareholders are entitled to dividends in British Pound Sterling.

Treasury shares

Treasury shares of GEL 46 as at 30 June 2014 comprise 1,522,185 of the Group's shares owned by the Bank (31 December 2013: GEL 56, or 1,973,376 shares). Purchase of treasury shares were conducted by the Bank in the open market.

Dividends

On 28 May 2014, the Directors of Bank of Georgia Holdings PLC declared 2014 interim dividends comprising Georgian Lari 2.0 per share. The currency conversion date was set at 9 June 2014, with the official GEL – GBP exchange rate of 2.9815, resulting in a GBP denominated interim dividend of 0.6708 per share. Payment of the total GEL 71,633 interim dividends was received by shareholders on 18 June 2014.

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

14. Equity (continued)

Nature and purpose of other reserves

Revaluation reserve for property and equipment

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

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

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

Nature and purpose of other reserves (continued)

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.

The Group paid GEL 33,106 for the acquisition of non-controlling interests in existing subsidiaries during the six months ended 30 June 2014, which mostly comprised of GEL 29,909 paid for the purchase of the remaining 49% non-controlling interest of GEL 12,402 in JSC My Family Clinic in April 2014. The resulting unrealised loss from the acquisition was GEL 17,507.

Foreign currency translation reserve

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

Movements in other reserves during six months ended 30 June 2014 and 30 June 2013 are presented in the statements of other comprehensive income.

Earnings per share

	For the six months ended	
	30 June 2014 (unaudited)	***30 June 2013 (unaudited)***
Basic and diluted earnings per share		
Profit attributable to shareholders of the Group	108,346	91,735
Weighted average number of ordinary shares outstanding during the period	34,442,314	34,030,799
Basic and diluted earnings per share	3.1457	2.6956

15. 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.

15. Commitments and Contingencies (continued)

Financial commitments and contingencies

As at 30 June 2014 and 31 December 2013 the Group's financial commitments and contingencies comprised the following:

	As at	
	30 June 2014 (unaudited)	*31 December 2013*
Credit-related commitments		
Guarantees issued	466,768	478,247
Undrawn loan facilities	130,548	147,273
Letters of credit	68,592	55,608
	665,908	**681,128**
Operating lease commitments		
Not later than 1 year	10,093	7,978
Later than 1 year but not later than 5 years	18,055	12,844
Later than 5 years	768	1,693
	28,916	**22,515**
Capital expenditure commitments	**10,621**	**11,463**
Less – Cash held as security against letters of credit and guarantees (Note 11)	(24,658)	(53,903)
Less – Provisions	(6,047)	(481)
Financial commitments and contingencies, net	**674,740**	**660,722**

As at 30 June 2014 the capital expenditure represented the commitment for purchase of property and capital repairs of GEL 8,927 and software and other intangible assets of GEL 1,694. As at 31 December 2013 the 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.

16. Net fee and commission

	For the six months ended	
	30 June 2014 (unaudited)	*30 June 2013 (unaudited)*
Settlements operations	41,114	35,333
Guarantees and letters of credit	10,604	12,592
Cash operations	4,161	4,020
Brokerage service fees	4,051	475
Currency conversion operations	1,536	1,212
Advisory	-	264
Other	1,349	1,002
Fee and commission income	**62,815**	**54,898**
Settlements operations	(11,704)	(8,699)
Guarantees and letters of credit	(1,835)	(1,883)
Cash operations	(1,785)	(682)
Brokerage service fees	(465)	(576)
Currency conversion operations	(60)	(34)
Other	(919)	(748)
Fee and commission expense	**(16,768)**	**(12,622)**
Net fee and commission income	**46,047**	**42,276**

17. Net Income from Real Estate

	For the six months ended	
	30 June 2014 (unaudited)	*30 June 2013 (unaudited)*
Income from affordable housing	32,304	1,165
Income from operating lease	1,945	1,825
Gain from sale of properties	1,278	822
Real estate revenue	**35,527**	**3,812**
Cost of affordable housing properties	(23,465)	(956)
Loss on property sale	(269)	(257)
Net real estate revenue	**11,793**	**2,599**

18. Net Non-Recurring Items

	For the six months ended	
	30 June 2014 (unaudited)	*30 June 2013 (unaudited)*
Negative goodwill on business combination	851	-
Gain from building transferred to healthcare segment from the Government	524	-
Gain from penalties on unfulfilled obligations by contractors	-	201
Other non-recurring income/gain	115	441
Total non-recurring income or gain	**1,490**	**642**
Impairment of investment securities available-for-sale (PJSC Bank Pershyi)	(3,837)	-
Loss from early repayments of borrowings from international credit institutions	(2,503)	-
Loss from Belarus Hyperinflation	(2,115)	(790)
Impairment of investment in associate	-	(2,441)
Management leave compensation expense	-	(577)
Loss from damaged physical assets	-	(531)
Unforseen loss on Affordable Housing pilot project	-	(389)
Charity expenses	(210)	(240)
Other	(1,023)	(1,127)
Total non-recurring expense or loss	**(9,688)**	**(6,095)**
Net non-recurring items	**(8,198)**	**(5,453)**

19. Financial Instruments

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

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

19. Financial Instruments (continued)

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

30 June 2014 ***(unaudited)***	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets measured at fair value				
Investment securities available-for-sale	-	568,572	1,365	569,937
Other assets – derivative financial assets	-	41,398	-	41,398
Other assets – trading securities owned	1,042	-	-	1,042
Financial assets for which fair values are disclosed				
Cash and cash equivalents	-	-	903,734	903,734
Amounts due from credit institutions	-	-	363,468	363,468
Loans to customers	-	-	3,687,951	3,687,951
Finance lease receivables	-	-	43,432	43,432
Financial liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	128	-	128
Financial liabilities for which fair values are disclosed				
Amounts due to customers	-	-	3,091,637	3,091,637
Amounts due to credit institutions	-	-	1,240,128	1,240,128
Debt securities issued	740,246	-	46,186	786,432

31 December 2013	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets measured at fair value				
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
Financial 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
Financial liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	1,513	-	1,513
Financial liabilities for which fair values are disclosed				
Amounts due to customers	-	-	3,159,482	3,159,482
Amounts due to credit institutions	-	-	1,157,979	1,157,979
Debt securities issued	728,117	-	-	728,117

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

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

19. Financial Instruments (continued)

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

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

	At 31 December 2012	*Sale of AFS securities*	*At 31 December 2013*	*Sale of AFS securities*	*Impairment of AFS securities*	*At 30 June 2014 (unaudited)*
Level 3 financial assets						
Equity investment securities available-for-sale	5,888	(666)	5,222	(19)	(3,838)	1,365

No financial instruments were transferred during the six months ended 30 June 2014 from level 1 and level 2 to level 3 of the fair value hierarchy. No gains or losses were recognised on level 3 financial instruments during the six months ended 30 June 2014 and 30 June 2013.

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

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

	At 30 June 2014 (unaudited)		*At 31 December 2013*	
	Carrying Amount	*Effect of reasonably possible alternative assumptions*	*Carrying Amount*	*Effect of reasonably possible alternative assumptions*
Level 3 financial assets				
Equity investment securities available-for-sale	1,365	+/-232	5,222	+/-886

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

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

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

19. Financial Instruments (continued)

	Carrying value 30 June 2014	*Fair value 30 June 2014*	*Unrecognised gain (loss) 30 June 2014*	*Carrying value 2013*	*Fair value 2013*	*Unrecognised gain (loss) 2013*
		Unaudited				
Financial assets						
Cash and cash equivalents	903,734	903,734	-	1,053,671	1,053,671	-
Amounts due from credit institutions	363,468	363,468	-	347,261	347,261	-
Loans to customers	3,615,995	3,687,951	71,956	3,477,309	3,592,147	114,838
Finance lease receivables	43,432	43,432	-	45,606	45,606	-
Financial liabilities						
Amounts due to customers	3,074,710	3,091,637	(16,927)	3,117,732	3,159,482	(41,750)
Amounts due to credit institutions	1,240,128	1,240,128	-	1,157,979	1,157,979	-
Debt securities issued	786,432	786,432	-	728,117	728,117	-
Total unrecognised change in unrealised fair value			**55,029**			**73,088**

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

20. Maturity Analysis

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

	30 June 2014 (unaudited)							
	On Demand	*Up to 3 Months*	*Up to 6 Months*	*Up to 1 Year*	*Up to 3 Years*	*Up to 5 Years*	*Over 5 Years*	*Total*
Financial assets								
Cash and cash equivalents	647,213	256,521	-	-	-	-	-	903,734
Amounts due from credit institutions	344,018	3,320	3,479	4,876	-	5,972	1,803	363,468
Investment securities available-for-sale	227,001	318,853	488	8,728	8,876	1,590	4,401	569,937
Loans to customers	-	691,804	381,918	697,265	1,080,277	464,674	300,057	3,615,995
Finance lease receivables	-	17,782	10,092	6,083	8,863	612	-	43,432
Total	**1,218,232**	**1,288,280**	**395,977**	**716,952**	**1,098,016**	**472,848**	**306,261**	**5,496,566**
Financial liabilities								
Amounts due to customers	337,811	476,365	208,678	1,711,313	306,255	21,251	13,037	3,074,710
Amounts due to credit institutions	27,692	496,768	103,592	110,619	256,537	135,500	109,420	1,240,128
Debt securities issued	-	27,297	4,229	68,462	96,542	589,902	-	786,432
Total	**365,503**	**1,000,430**	**316,499**	**1,890,394**	**659,334**	**746,653**	**122,457**	**5,101,270**
Net	**852,729**	**287,850**	**79,478**	**(1,173,442)**	**438,682**	**(273,805)**	**183,804**	**395,296**

20. Maturity Analysis (continued)

	31 December 2013							
	On Demand	***Up to 3 Months***	***Up to 6 Months***	***Up to 1 Year***	***Up to 3 Years***	***Up to 5 Years***	***Over 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	401,781	61,071	137,223	272,072	182,508	89,704	1,157,979
Debt securities issued	-	26,886	-	25,938	94,848	580,445	-	728,117
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**

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

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

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

As at 30 June 2014 amounts owed to customers amounted to GEL 3,074,710 (31 December 2013: GEL 3,117,732) and represented 57% (31 December 2013: 59%) of Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 30 June 2014 amounts owed to credit institutions amounted to GEL 1,240,128 (31 December 2013: GEL 1,157,979) and represented 23% (31 December 2013: 22%) of total liabilities. As at 30 June 2014 debt securities issued amounted to GEL 786,432 (31 December 2013: GEL 728,117) and represented 15% (31 December 2013: 14%) of total liabilities.

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

20. Maturity Analysis (continued)

	30 June 2014 (unaudited)			*31 December 2013*		
	Less than 1 Year	***More than 1 Year***	***Total***	***Less than 1 Year***	***More than 1 Year***	***Total***
Cash and cash equivalents	903,734	-	903,734	1,053,671	-	1,053,671
Amounts due from credit institutions	355,693	7,775	363,468	333,859	13,402	347,261
Investment securities available-for-sale	555,070	14,867	569,937	515,557	4,066	519,623
Loans to customers	1,770,987	1,845,008	3,615,995	1,756,760	1,720,549	3,477,309
Finance lease receivables	33,957	9,475	43,432	31,953	13,653	45,606
Investment properties	-	152,292	152,292	-	157,707	157,707
Property and equipment	-	534,289	534,289	-	470,669	470,669
Intangible assets	-	28,490	28,490	-	26,434	26,434
Goodwill	-	48,720	48,720	-	48,720	48,720
Current income tax assets	13,288	-	13,288	4,552	-	4,552
Deferred income tax assets	-	18,916	18,916	-	14,544	14,544
Prepayments	15,882	12,306	28,188	14,802	10,732	25,534
Other assets	241,776	105,156	346,932	221,640	107,699	329,339
Total assets	**3,890,387**	**2,777,294**	**6,667,681**	**3,932,794**	**2,588,175**	**6,520,969**
Amounts due to customers	2,734,167	340,543	3,074,710	2,812,270	305,462	3,117,732
Amounts due to credit institutions	738,671	501,457	1,240,128	613,695	544,284	1,157,979
Debt securities issued	99,988	686,444	786,432	52,824	675,293	728,117
Current income tax liabilities	7,119	-	7,119	2,928	-	2,928
Deferred income tax liabilities	-	85,498	85,498	-	66,100	66,100
Provisions	4,792	1,255	6,047	481	-	481
Other liabilities	168,000	42,871	210,871	185,353	21,225	206,578
Total liabilities	**3,752,737**	**1,658,068**	**5,410,805**	**3,667,551**	**1,612,364**	**5,279,915**
Net	**137,650**	**1,119,226**	**1,256,876**	**265,243**	**975,811**	**1,241,054**

21. 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.

21. Related Party Disclosures (continued)

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

	2014 (Unaudited)			*2013 (Unaudited)*		
	Share-holders	***Asso-ciates***	***Key management personnel****	***Share-holders***	***Asso-ciates***	***Key management personnel****
Loans outstanding at 1 January, gross	**-**	**-**	**1,484**	**-**	**-**	**5,136**
Loans issued during the year	-	-	1,149	-	-	1,114
Loan repayments during the year	-	-	(1,785)	-	-	(1,416)
Other movements**	-	-	39	-	-	(4,269)
Loans outstanding at 30 June, gross	**-**	**-**	**887**	**-**	**-**	**565**
Less: allowance for impairment at 31 December	-	-	(1)	-	-	(6)
Loans outstanding at 30 June, net	**-**	**-**	**886**	**-**	**-**	**559**
Interest income on loans	-	-	33	-	-	78
Loan impairment charge	-	-	(15)	-	-	(46)
Deposits at 1 January	**-**	**50**	**11,455**	**11,636**	**17**	**9,681**
Deposits received during the year	-	54	17,447	2,330	54	8,448
Deposits repaid during the year	-	(75)	(14,568)	(3,609)	(54)	(6,920)
Other movements**	-	6	3,176	(148)	(17)	(4,463)
Deposits at 30 June	**-**	**35**	**17,510**	**10,209**	**-**	**6,746**
Interest expense on deposits	-	-	(296)	(325)	-	(210)
Other income	-	-	57	-	-	53
Borrowings at 1 January	**233,209**	**-**	**-**	**233,441**	**-**	**-**
Borrowings received during the year	16,522	-	-	9,076	-	-
Borrowings repaid during the year	(73,429)	-	-	(33,329)	-	-
Other movements**	(96,837)	-	-	(1,546)	-	-
Borrowings at 30 June	**79,465**	**-**	**-**	**207,642**	**-**	**-**
Interest expense on borrowings	(3,693)	-	-	(9,648)	-	-
Interest rate swaps* at 1 January**	**1,453**	**-**	**-**	**4,783**	**-**	**-**
Payments during the year	(1,453)	-	-	(2,118)	-	-
Other movements**	-	-	-	185	-	-
Interest rate swaps at 30 June	**-**	**-**	**-**	**2,850**	**-**	**-**
Net loss from interest rate swaps	-	-	-	(185)	-	-

** Key management personnel include members of BGH's Board of Directors and Chief Executive Officer and Deputies of the Bank.*
*** Movements caused by the change in the list of respective related parties during the period. GEL 96,837 reduction of borrowings from related parties is attributable to the sale of BGH shares by the International Finance Corporation during the six months ended 30 June 2014.*
**** Interest rate swap agreements with IFC.*

Compensation of key management personnel was comprised of the following:

	For the six months ended	
	30 June 2014 (unaudited)	***30 June 2013 (unaudited)***
Salaries and other benefits	2,160	1,854
Share-based payments compensation	14,763	6,858
Social security costs	20	13
Total key management compensation	**16,943**	**8,725**

The number of key management personnel at 30 June 2014 was 16 (31 December 2013:15).

22. 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.

Approved and published on 28 October 2013 by NBG, a new capital adequacy regulation becomes effective in 2014, based on Basel 2/3 requirements, adjusted for NBG's discretionary items. Pillar 1 requirements became effective on 30 June 2014, with Pillar 2 (ICAAP) requirements becoming effective 30 September 2014. A transition period is to continue through 1 January 2017, during which the Bank will be required to comply with both, the new, as well as the current, capital regulations of the NBG.

During the six months ended 30 June 2014, the Bank and the Group had complied in full with all its externally imposed capital requirements.

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

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

Current NBG capital adequacy ratio

The NBG requires banks to maintain a minimum total capital adequacy ratio of 12% of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 30 June 2014 and 31 December 2013 the Bank's capital adequacy ratio on this basis was as follows:

	As at	
	30 June 2014 (unaudited)	***31 December 2013***
Core capital	859,015	810,545
Supplementary capital	279,069	313,220
Less: Deductions from capital	(335,775)	(256,471)
Total regulatory capital	**802,309**	**867,294**
Risk-weighted assets	**5,806,457**	**5,638,556**
Total capital adequacy ratio	**13.8%**	**15.4%**

Core capital comprises share capital, additional paid-in capital and retained earnings (without current period profits), less intangible assets and goodwill. Supplementary capital includes subordinated long-term debt, current period profits and general loss provisions. Deductions from the capital include investments in subsidiaries. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG.

22. Capital Adequacy (continued)

New NBG (Basel 2/3) capital adequacy ratio

Effective 30 June 2014, the NBG requires banks to maintain a minimum total capital adequacy ratio of 12.5% of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel 2/3 requirements. As at 30 June 2014 the Bank's capital adequacy ratio on this basis was as follows:

	As at	
	30 June 2014 (unaudited)	*31 December 2013*
Tier 1 capital	1,209,830	1,170,104
Tier 2 capital	203,342	256,224
Less: Deductions from capital	(1,976)	(51,147)
Total capital	**1,411,196**	**1,375,181**
Risk-weighted assets	**5,373,459**	**5,080,827**
Tier 1 capital ratio	22.5%	23.0%
Total capital ratio	26.3%	27.1%
Minimum capital adequacy ratio	**8.0%**	**8.0%**

Tier 1 capital comprises share capital, additional paid-in capital and retained earnings, less investments in subsidiaries, intangible assets and goodwill. Tier 2 capital includes subordinated long-term debt and general loss provisions. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG.

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on consolidated statement of financial position and computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 30 June 2014 and 31 December 2013, follows:

	As at
	30 June 2014 (unaudited)
Tier 1 capital	669,921
Tier 2 capital	197,832
Total regulatory capital	**867,753**
Risk-weighted assets	**6,202,897**
Tier 1 capital ratio	**10.8%**
Total capital ratio	**14.0%**

Abbreviations

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

Glossary

Aldagi	Aldagi is an insurance and healthcare subsidiary of JCS Bank of Georgia
Belarusky Narodny Bank (BNB)	Belarusian banking subsidiary of Bank of Georgia Group
BG Bank	Currently PJSC Bank Pershyi. In February 2011, the Group disposed of an 80.0% equity interest in BG Bank
BG Capital	The Bank's wholly-owned subsidiary providing brokerage, custody and corporate finance services
Developmental Financial Institutions (DFIs)	Developmental financial institutions established (or chartered) by more than one country which are subject to international law and whose owners or shareholders are generally national governments, including, among others, the EBRD and IFC
Express Pay terminal	A payment terminal enabling customers to make various payments remotely including utility bill payments and loan repayments at a wide variety of locations
Georgian Leasing Company (GLC)	The Bank's wholly-owned subsidiary through which it provides finance leasing services
Geostat	National Statistics Office of Georgia
Global Depository Receipt (GDR)	A certificate issued by a depositary bank, which represents ownership of an underlying number of shares
Gross loans	In all sections, except for the Consolidated Financial Statements, gross loans are defined as gross loans to customers and gross finance lease receivables
International Finance Corporation (IFC)	A member of the World Bank Group, the largest global development institution focused exclusively on the private sector in developing countries
m2 Real Estate	Real Estate business of the Group
My Family Clinic	Healthcare subsidiary of Aldagi
Net loans	In all sections, except for the consolidated audited financial statements, net loans are defined as gross loans to customers and finance lease receivables less allowance for impairment
Non-performing loans (NPLs)	The principal and interest on loans overdue for more than 90 days and any additional losses estimated by management
Operating cost	Other operating expenses
Reserve For Loan Losses To Gross Loans	Allowance for impairment of loans and finance lease receivables divided by gross loans and finance lease receivables
Tender Offer	BGH a public limited liability company launched the tender offer to exchange its entire ordinary share capital for an equivalent number of the Bank's ordinary shares and thus to acquire the entire issued and to be issued share capital, including those shares represented by GDRs, of the Bank in December 2011. Tender Offer was successfully completed in February 2012
Weighted average number of ordinary shares	Average of daily outstanding number of shares less daily outstanding number of treasury shares
Weighted average diluted number of ordinary shares	Weighted average number of ordinary shares plus weighted average dilutive number of shares known to the management during the same period

SHAREHOLDER INFORMATION

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

JOINT STOCK COMPANY BANK OF GEORGIA

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Stock Listing
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Ticker symbol for Bank of Georgia share is GEB

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