London, 11 April 2013

ANNUAL REPORT 2012 AND DIVIDEND ANNOUNCEMENT

Bank of Georgia Holdings PLC (the **Company**) (LSE: BGEO LN) has today published its Annual Report for the period from the date of its incorporation (14 October 2011) to 31 December 2012 (the **Annual Report 2012**). A copy of the Annual Report 2012 have been submitted to the National Storage Mechanism and will shortly be available for inspection at www.hemscott.com/nsm.do.

The Annual Report 2012 is also available on the Company's website at www.bogh.co.uk.

The Directors of the Company have also declared their intention to recommend an annual dividend in the amount of GEL 1.50 per share (payable in British Pounds Sterling), subject to approval by the shareholders at the Company's Annual General Meeting, scheduled for 23 May 2013. The Notice of Annual General Meeting will be dispatched to shareholders on or about 18 April 2013.

As a holding company whose principal assets are the shares of its subsidiaries, the Company relies primarily on dividends from its subsidiaries, principally JSC Bank of Georgia (the **Bank**), Georgia's leading bank, to generate reserves necessary to pay dividends to its shareholders.

If the annual dividend is approved at the Company's Annual General Meeting on 23 May 2013, the Company envisions the following dividend timetable:

Ex-Dividend Date	5 June 2013
Record Date	7 June 2013
Currency Conversion Date	10 June 2013
Payment Date	19 June 2013

This announcement should be read in conjunction with the Company's preliminary results announcement issued on 19 February 2013. In accordance with DTR 6.3.5R, this announcement includes three appendices which contain information on (i) the principal risks and uncertainties relating to the Company, (ii) details of related party transactions and (iii) a responsibility statement, each of which has been extracted in full unedited text from the Annual Report 2012. This information is included solely for the purposes of complying with DTR 6.3.5R. It should be read in conjunction with, and is not a substitute for reading, the full Annual Report 2012. References to page numbers and notes in the extracts are to page numbers and notes in the Annual Report 2012. In addition, the capitalised terms have the meanings as they appear in the Annual Report 2012.

About Bank of Georgia Holdings plc

Bank of Georgia Holdings plc is a UK-incorporated holding company of Bank of Georgia. Bank of Georgia is the leading Georgian bank, based on total assets (with a 36.7% market share), total loans (with a 35.4% market share) and total deposits (with a 31.8% market share) as of 31 December 2012, all data based on standalone financial information filed by banks in Georgia with the National Bank of Georgia. The Bank offers a broad range of corporate banking, retail banking, wealth management, brokerage and insurance services to its clients.

Bank of Georgia has, as of the date hereof, the following credit ratings:

Standard & Poor's	'BB-/B'
Fitch Ratings	'BB-/B'
Moody's	'B1/NP' (FC) & 'Ba3/NP' (LC)

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Appendix 1 - Principal Risks and Uncertainties

The principal risks and uncertainties relating to the Company are set out on pages 46 to 55 of the Annual Report 2012. The following is extracted in full and unedited form from the Annual Report 2012.

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

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

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

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

Georgia, which is bordered by Russia, Azerbaijan, Armenia and Turkey, could be adversely affected by political unrest within its borders and in surrounding countries. In particular, Georgia has had ongoing disputes in the breakaway regions of Abkhazia and the Tskhinvali Region/South Ossetia and with Russia since the restoration of its independence in 1991. These disputes have led to sporadic violence and breaches of peace-keeping operations. Most recently, in August 2008, the conflict in the Tskhinvali Region/South Ossetia escalated as Georgian troops engaged with local militias and Russian forces that crossed the international border, and Georgia declared a state of war (the “2008 Conflict”). Although Georgia and Russia signed a French-brokered ceasefire that called for the withdrawal of Russian forces later that month, Russia recognised independence of the breakaway regions and Russian troops continue to occupy Abkhazia and the Tskhinvali Region/South Ossetia and tensions continue. In addition, relations between Georgia’s neighbours, Azerbaijan and Armenia, remain tense and there are sporadic instances of violence between these two countries. Russia is opposed to the eastward enlargement of the North Atlantic Treaty Organisation, potentially including ex-Soviet republics, such as Georgia. The Georgian government has taken certain steps towards improving relations with Russia, however these have not currently resulted in any formal or legal changes in the relationship between the two countries. Any future deterioration or worsening of Georgia’s relationship with Russia, including any major changes in Georgia’s relations with Western governments and institutions, in particular in terms of national security, Georgia’s importance to Western energy supplies, the amount of aid granted to Georgia or the ability of Georgian manufacturers to access world export markets, or a significant deterioration in relations between Azerbaijan and Armenia, may have a negative effect on the political and economic stability of Georgia, which could have an adverse effect on the Group.

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

For the year ended 31 December 2012, 96.2% of the Group’s total consolidated profit was derived from its business in Georgia. Therefore, macroeconomic factors relating to Georgia, such as GDP, inflation, interest and currency exchange rates, as well as unemployment, personal income and the financial condition of companies, have a material impact on loan losses, margins and customer demand for the Group’s products and services, which materially affects the Group’s business, financial condition and results of operations.

Georgia’s main economic activities include tourism, transit services, agriculture, mining, metals, machinery and chemicals. According to the Geostat, the country’s real GDP grew by 9.4% in 2006 and 12.3% in 2007 and, according to the Ministry of Finance of Georgia, this growth was largely based on strong inflows of FDI and robust spending by the Government of Georgia. However, the global economic downturn and the 2008 Conflict led to a decline in public spending and Georgia experienced a 57.9% reduction in FDI in 2009, compared to 2008, Real GDP in Georgia declined by 3.8% in 2009 compared with growth of real GDP by 2.3% in 2008 due to the global economic crisis, which led to deterioration in the employment market in Georgia and, in turn, contributed to a decrease in loans and a slowdown in the rate of growth of deposits in the Georgian banking sector. In addition, the Georgian banking sector began to experience a shortage of liquidity in the second half of 2008, which continued into the first half of 2009, increasing competition for retail deposits.

The economic slowdown in Georgia reduced the growth rate of the Group’s portfolio of retail and corporate loans. This in turn affected the Group’s net fee and commission income (and, to a certain extent, the Group’s net interest income, although net interest income was predominantly affected by a reduction in the size of the Group’s securities portfolio). Moreover, financing costs increased due to both the limited availability of funding on the inter-bank market, mainly driven by credit risk aversion, and increasing interest rates on bank deposits resulting from increasing competition in the deposit market, which also had a negative impact on the net interest income earned by the Group. In addition, the quality of the Group's loan portfolio deteriorated as a result of the economic slowdown, which resulted in an increase in the Group's loans past due more than 90 days. NPLs, defined as loans past due more than 90 days and any additional losses estimated by the management declined from GEL 117.6 million at 31 December 2010 to GEL 100.3 million as at 31 December 2011 and then increased to GEL 126.3 million as at 31 December 2012. FDI grew by 37.2% to US$ 1.1 billion in 2011 from 2010 and declined by 22.6% to an estimated US$ 865.2 million in 2012. Although the Georgian economy showed signs of improvement in 2010, 2011 and 2012, with real GDP growth of 6.3% in 2010, 7.2% in 2011, there can be no assurance that the recovery will continue or that there will not be a further deterioration in Georgia's economy.

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

In addition, the Georgian economy is highly dollarised. Prior to 2008, the dollarisation rate of the banking system (defined as foreign currency deposits as a share of total deposits) had declined with foreign currency deposits accounting for approximately 64.4% of all client deposits as at 1 January 2008. As a result of the combined effects of the 2008 Conflict and the global financial crisis, however, the dollarisation rate increased to approximately 73.6% as at 1 January 2009, although it has since decreased to approximately 68.8% as at 1 January 2010, 67.0% as at 1 January 2011, 59.2% as at 1 January 2012 and increased to 63.8% as at 1 January 2013. Although the NBG has adopted measures to support the development of Georgia's domestic money markets, the dollarisation rate could adversely impact on the effectiveness of the implementation of the NBG's monetary and exchange rate policies, which could negatively impact the purchasing power of the Lari, restrict future growth in the GDP of Georgia and depress Georgia's investment climate. Any of these effects could, in turn, have a material adverse effect on the Georgian economy and therefore an adverse effect on the Group.

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

Although the Lari is a fully convertible currency, there is generally no market outside Georgia for the exchange of Lari. A market exists within Georgia for the conversion of Lari into other currencies, but it is limited in size. According to the NBG, in 2012, the total volume of trading turnover in the Lari-US Dollar and Lari-Euro markets (excluding activities of the NBG) amounted to US$ 14.4 billion and €5.0 billion, respectively. According to the NBG, the NBG had US$ 2.8 billion in gross official reserves as at 31 December 2011 and US$ 2.9 billion as at 31 December 2012. While the Government of Georgia has stated that these reserves will be sufficient to sustain the domestic currency market in the short term, a lack of growth of this currency market may hamper the development of Georgia's economy, which could have a material adverse effect on the businesses of the Group's corporate customers and, in turn, a material adverse effect on the Group.

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

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

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

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

Mikheil Saakashvili has served as President of Georgia for two terms, having first been elected in January 2004. The next presidential elections are scheduled to be held in October 2013. However, pursuant to the provisions of the Constitution, President Saakashvili cannot stand for a third term in office. Should any protests or criticism arise in relation to the conduct or outcome of the 2013 Presidential election this may lead to political instability or disruption within Georgia.

Additionally, on 15 October 2010, the Parliament approved amendments to the Constitution which are intended to enhance the primary governing responsibility of the Parliament, increase the powers of the Prime Minister and reduce the powers of the Presidency. It is currently anticipated that the majority of these amendments to the Constitution will become effective after the 2013 Presidential election.

However, although in March 2013 the Parliament has unanimously adopted certain amendments to the constitution thus limiting the powers of the President, there can be no assurance that the proposed favourable reforms in the healthcare and insurance business will continue, will not be reversed or will not otherwise be hindered. There can be no assurance that changes to Georgian Parliamentary, Presidential or Prime Ministerial powers will not create political disruptions or political instability or otherwise negatively affect the political climate in Georgia.

The Georgian Dream coalition government is currently in the process of preparing and finalising a range of new initiatives, including amendments to the Labour Code, anti-monopoly regulations, court system and changes to the regulation of the healthcare sector. The Group sees its healthcare and insurance business as one area of future growth for the Group. Current planned healthcare reform significantly increases the market available to the Group's current and proposed activities.

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

The Group may experience increases in its income taxes

During the three years ended 31 December 2012, the corporation income tax rate in Georgia was 15%. This tax rate is generally lower than the tax rate applicable to other of the Group's peer companies, particularly those operating in more developed Western countries. Furthermore, by virtue of the Economic Liberty Act passed by Parliament in July 2011 which enters into force on 1 January 2014 subject to certain exceptions, referenda are required to be held before raising taxes and tax rates. However, no assurance can be given that there will not in the future be an increase in corporate income tax in Georgia. Any significant increase in the rate of corporate income tax in Georgia or other changes in taxation policy could have a material adverse effect on the Group's business, financial condition and results of operations.

Risks relating to the Group's lending activities

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

The quality of the Group's loan portfolio is affected by changes in the creditworthiness of its customers, the ability of customers to repay their loans on time, the statutory priority of claims against customers and the Group's ability to enforce its security interests on customers' collateral should such customers fail to repay their loans and whether the value of such collateral is sufficient to cover the full amounts of those loans. In addition, the quality of the Group's loan portfolio may deteriorate due to various other reasons, such as any negative developments in Georgia's economy resulting in the financial distress or bankruptcy of the Group's customers or the unavailability or limited availability of credit information concerning certain customers, and other factors, such as a failure of the Group's risk management procedures or a rapid expansion of the Group's loan portfolio. For example, during 2008 and 2009, the Group's loan book quality was negatively affected by the economic slowdown in Georgia, Ukraine and Belarus, as well as by the 2008 Conflict. The Group's loan impairment charges were to GEL 39.7 million in 2012 compared to GEL 23.5 million in 2011 and GEL 44.1 million in 2010. Also, as at 31 December 2012, 2011 and 2010, loans past-due more than 90 days accounted for 2.6%, 3.2% and 4.6% of total gross loans, respectively. NPLs accounted for 3.9% of gross loans as at 31 December 2012, 3.7% as at 31 December 2011 and 4.6% as at 31 December 2010. Loans that would otherwise be overdue or impaired whose terms (including as to principal and interest payment) have been renegotiated due to the borrower's existing or possible inability to pay ("Renegotiated Loans") accounted for 3.2% of total gross loans as at 31 December 2012 as compared to 4.5% and 10.9% as at 31 December 2011 and 2010, respectively. For more information regarding the credit quality of Renegotiated Loans, see “The Group’s risk management methods may provide ineffective at mitigating credit risk.” Although, the Board does not believe that there is a material risk that the Group’s loan portfolio quality will deteriorate in the next 12 months, there can be no assurance that in the longer term the Group’s loan portfolio quality will not deteriorate and that the Group’s loan impairment charges will not increase, which could, in turn, have an adverse effect on the Group’s business, financial condition and results of operations.

The Group’s loan portfolio for its corporate banking segment is highly concentrated, with the Group’s top ten corporate borrowers accounting for 17.4% of the Group’s total loan portfolio as at 31 December 2012 (gross of allowance for impairment). To the extent that the Group grows its loan portfolio by entering into additional arrangements with existing counterparties, it will increase its credit and general counterparty risk with respect to those counterparties.

Collateral values may decline

As at 31 December 2012, the Group held collateral against gross loans amounting to GEL 2,789.3 million, corresponding to 87.1% of the Group’s total gross loans. The main forms of collateral taken by the Group in its corporate lending are charges over real estate, equipment, inventory and trade receivables. The main form of collateral taken by the Group in its retail lending is a mortgage over residential property. In respect of mortgage loans which are secured by real estate, the Group imposes a loan-to-value (based on a liquidation value of the collateral) ratio of between 60% and 90% at the time the loan is advanced, depending on the value of the collateral. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions in the industries in which the Group’s customers operate, such as occurred during 2008 and 2009, may result in illiquidity and a decline in the value of the collateral securing the Group’s loans, including a decline to levels below the outstanding principal balance of those loans.

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

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

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

A mismatch of interest-earning assets and interest-bearing liabilities in any given period resulting from changes in any of the key factors outlined above, or otherwise, could reduce the Group’s net interest margin. The Group’s NIM was 7.9%, 7.8% and 8.8% in the years ended 31 December 2012, 2011 and 2010, respectively. The slight increase in the Group’s NIM in 2012 as compared to 2011 was due to the overall decrease of the Group’s cost of funding from 8.0% in 2011 to 7.3% in 2012, supported by a decrease in the proportion of Lari denominated customer deposits within total customer deposits in the second half of 2012 in particular. Any reduction in the Group's NIM caused by changes in the key factors outlined above otherwise could have a material adverse effect on the Group's net interest income, which could, in turn, have a material adverse effect on the Group.

In addition, any increase in interest rates may result in an increase in the 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 have a material adverse effect on the Group's business, financial condition and results of operations.

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

A substantial portion of the total assets of the Group, especially its loan portfolio (67.9% of its gross loans to customers as at 31 December 2012), is denominated in foreign currencies, primarily US Dollars, while the majority of customers who have their loans denominated in foreign currencies earn their income in Lari. Those customers are usually not protected against the fluctuations of the exchange rates of the Lari against the currency of the loan. Consequently, any depreciation of the Lari against the currency of the loan may result in difficulties in repayment of the loans, which may lead to a decrease in the quality of the Group's loan portfolio and an increase in impairment provisions for loans extended to the Group's customers, which may have a material adverse effect on the Group's business, financial condition and results of operations.

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

Depreciation of the Belarusian Rouble against the Lari has the effect of reducing BNB's contribution to the Group's consolidated capital. In May 2011, the Belarusian Rouble was devalued by 39.5% as compared to its value as at 30 April 2011, as measured against the US Dollar. As a result, the regulatory capital of BNB decreased below the minimum regulatory capital required to accept retail deposits (being €25 million, as required by the National Bank of Republic of Belarus). In the second half of 2011, the Belarusian Rouble depreciated further, as measured against the US dollar, and declined another 40.6% between 30 June 2011 and 31 December 2011. Accordingly, the regulatory capital of BNB decreased to €14.6 million (GEL 31.6 million) as at 31 December 2011. As at 1 January 2013, the regulatory capital of BNB was €17.3 million (GEL 37.8 million). The NBRB has granted a temporary waiver of the minimum regulatory capital requirement until 1 January 2014. The NBRB has also set a limit on the amount of deposits from individuals at GEL 49.5 million (which is the value of deposits from individuals of BNB as at 1 February 2013) until BNB regulatory capital reaches minimum required level of €25 million. As at 31 December 2011, as a result of the devaluation of the Belarusian Rouble, the Group recognised a write down of GEL 23.4 million, representing the full amount of BNB's goodwill.

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

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

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

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

Additional risks arising principally from the Group's banking activities

The Group faces liquidity risk

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

As at 31 December 2012, 2011 and 2010, 87.7%, 92.7%, and 92.8%, respectively, of the Group's amounts due to customers had maturities of one year or less while 48.2%, 55.6% and 48.3%, respectively, were payable on demand. As at the same dates, the Group's ratio of net loans to amounts due to customers was 114.8%, 95.7%, and 116.8%, respectively. In terms of current and short-term liquidity, the Group is exposed to the risk of unexpected, rapid withdrawal of deposits by its customers in large volumes. Circumstances in which customers are more likely to rapidly withdraw deposits in large volumes include a severe economic downturn, a loss in consumer confidence, an erosion of trust in financial institutions, or a period of social, economic or political instability. By way of example, the Group experienced a higher than usual volume of customer withdrawals in the period following the 2008 Conflict. See "Political and governmental instability in Georgia could have an adverse effect on the local economy and the Group". If a substantial portion of the Group's customers rapidly or unexpectedly withdraw their demand or term deposits or do not roll over their term deposits upon maturity, this could have a material adverse effect on the Group.

The Group is subject to certain regulatory ratios

The Bank, like all regulated financial institutions in Georgia, is required to comply with certain capital adequacy and regulatory ratios set by the NBG. Although in the past, the Bank's investments to equity and investment plus fixed assets to equity financial ratios have been below the level set by the NBG, the NBG confirmed on 31 December 2009 that it would not impose any sanctions on the Bank as a result and the Bank has been in compliance with both of these financial ratios since February 2011.

In December 2010, the Basel Committee on Banking Supervision published the Basel III rules setting out certain changes to capital requirements applicable to banks. Implementation of the new, combined regulation based on Basel II and Basel III takes place at a national level, the NBG is currently in the process of implementing Basel II and Basel III in Georgia. On 17 January 2013, the NBG published a draft regulation for capital adequacy based on Basel II and Basel III, which makes adjustments to certain Basel II and Basel III rules, including those relating to foreign currency additional risk weights, specific measurements and risk estimates. The Group had expected that the Basel III requirements are phased in over a period of time commencing in April 2013. However, the NBG has notified the Bank about the delay in the implementation of Basel II and Basel III until 1 January 2014. The NBG is expected to publish an updated implementation schedule in due course. As the implementation of Basel II and Basel III will be the subject of rules that have yet to be adopted in Georgia, the Group cannot predict the impact such rules will have on the Group's overall capital requirements.

In addition, BNB is licensed by the NBRB and is required to comply with certain capital adequacy ratios and minimum share capital requirements set by the NBRB. Although BNB has the minimum level of regulatory capital required by NBRB to conduct banking operations in Belarus (the minimum level for this purposes is set at the equivalent of €5 million and, as at 31 December 2012, the regulatory capital of BNB was €17.3 million), BNB has not had the minimum level of regulatory capital required by NBRB in order to hold deposits from individuals (set at the equivalent of €25 million for this purpose) since May 2011. Although BNB has received a temporary waiver effective until 1 January 2014 in respect of this breach, there is no assurance that BNB will be able to comply with the minimum level of regulatory capital required by NBRB by 1 January 2014, or that it will be able to obtain a further waiver from the NBRB thereafter. For further information see "Currency fluctuation have affected, and may continue to affect, the Group". If BNB's level of regulatory capital remains below the minimum level required by the NBRB after the temporary waiver expires and no new waiver is obtained, the NBRB may revoke BNB's licence to accept retail deposits. As at 31 December 2012, BNB had GEL 49.7 million in deposits from individuals, representing 1.9% of the Group's total customer deposits and 1.1% of total liabilities.

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

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

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

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

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

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

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

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

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

Risks affecting the Group's non-banking activities

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

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

Although Aldagi BCI adheres to strict reinsurance policies and periodically evaluates the financial condition of its reinsurers to minimise its exposure to significant losses from reinsurer insolvencies, reinsurers may become financially unsound by the time their financial obligations become due. The inability of any reinsurer to meet its financial obligations to Aldagi BCI could negatively impact Aldagi BCI'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 BCI at commercially reasonable rates, or at all, and any decrease in the amount of Aldagi BCI's reinsurance will increase its risk of loss.

In accordance with industry practices and accounting regulatory requirements, Aldagi BCI establishes reserves for reported claims, incurred but not reported claims and unearned premiums. Reserves do not represent an exact calculation of liability, but instead represent estimates of what the ultimate settlement and administration of claims will cost based on an assessment of facts and circumstances then known, review of historical settlement patterns, estimates of trends in claims severity, frequency of claims, legal theories of liability and other factors. There can be no assurance that actual claims will not materially exceed its claims reserves and have a material effect on its financial condition and results of operations.

The 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, governmental regulations, including environmental regulation, tax laws and insurance; and

- acts of nature, such as earthquakes, floods and other extreme weather events that may damage the property.

In addition, m2 Real Estate's projects are subject to the general risks associated with construction and development, including:
- cost overruns due to increased material, labour or other costs, which could make completion of the project unprofitable;
- the inability to obtain, or delays in obtaining, required zoning, land-use, building, occupancy, and other governmental permits and authorisations, which could result in increased costs and could require m2 Real Estate to abandon a project entirely; and
- m2 Real Estate may be unable to complete construction and leasing of a property on schedule.

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

Other risks affecting the Group

The Group may not successfully implement its strategy

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

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

The Group faces competition

In recent years the Georgian banking sector has become increasingly competitive. According to the NBG, as at December 2012 there were 20 commercial banks, of which 18 are foreign controlled. The Group competes with a number of these banks, including TBC Bank, ProCredit Bank, Bank Republic and VTB Georgia. In particular, as ProCredit Bank has a large market share in respect of SME and micro finance loans, the Group faces competition from ProCredit Bank in relation to SME and micro financing in Georgia. TBC Bank and Bank Republic are the Bank's principal competitors in the corporate sector. In addition, both the mortgage market and the market for the provision of financial services to high net worth individuals are highly competitive in Georgia, with some competitors in the mortgage market implementing aggressive pricing policies in order to retain or build their market share. Additionally, in Belarus, the Group competes with a wide range of local (including state-owned) and international banks.

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

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

Increased competition may have a negative impact on the Group's ability to sustain its margin and fee levels, particularly if the Group's competitors possess greater financial resources (especially in the case of banks with foreign capital investment or banks which are branches of non-resident foreign banks, by way of access to funding from foreign capital or their parent entity), access to lower-cost funding and a broader offering of products than the Group, or if the Group's competitors merged to significantly enhance their financial resources, access to funding and product offerings. Unlike most of its competitors, the Group has a relatively wide shareholder base and does not have an international financial institution as a majority shareholder. In 2008 and 2009, the Group's financing costs increased (which in turn had a negative impact on the net interest income earned by the Group) due to, among other things, increasing interest rates on bank deposits resulting from increasing competition in the deposit market. In addition, increasing competition could lead to significant pressure on the Group's market share. Increasing competition in the banking industry has already led to and may, in the future, continue to lead to increased pricing pressures on the Group's products and services, which could have a material adverse effect on the Group's business financial condition and results of operations.

The Group depends on its key management and qualified personnel

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

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

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

The Group faces certain risks associated with conducting international operations

The Group has historically made investments in Ukraine and Belarus. The Group's financial results in 2009 were adversely affected by a goodwill write-down in the amount of GEL 73.1 million, predominantly due to the write-off of the entire goodwill associated with BG Bank, as a result of a weak economic environment in Ukraine and high loan and finance lease receivables impairment charges in respect of BG Bank in 2008 and 2009. In February 2011, the Group disposed of its 80% interest in BG Bank. The Group's financial results in 2011 were adversely affected by a goodwill write down in the amount of GEL 23.4 million, due to the write off of the entire goodwill associated with BNB, as a result of a material devaluation of the Belarusian Rouble. For further information, see "Currency fluctuations have affected and may continue to affect the Group".

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

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

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

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

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

negative effect on the Georgian economy, could have a material adverse effect on the Group's business, financial condition and results of operations. In addition, to varying degrees, the same uncertainties of the judicial system in Georgia as discussed above apply to Belarus.

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

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

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

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

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

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

Appendix 2 - Related Party Transactions

The following statements regarding related party transactions of the Company are set out on pages 174 to 175 of the Annual Report 2012. The following is extracted in full and unedited form from the Annual Report 2012.

"30. RELATED PARTY DISCLOSURES

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's length basis.

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

	2012			2011			2010		
	Shareholders	Associates	Key management personnel*	Shareholders	Associates**	Key management personnel*	Shareholders	Associates	Key management personnel*
Loans outstanding at 1 January, gross	–	**304**	**6,558**	–	**2,191**	**4,758**	–	**9,255**	**5,791**
Loans issued during the year	–	–	**7,457**	–	954	7,951	–	624	7,125
Loan repayments during the year	–	**(259)**	**(8,389)**	–	(5,493)	(6,663)	–	(707)	(6,877)
Other movements	–	**(45)**	**(490)**	–	2,652	512	–	(6,981)	(1,281)
Loans outstanding at 31 December, gross	–	–	**5,136**	–	**304**	**6,558**	–	**2,191**	**4,758**
Less: allowance for impairment at 31 December	–	–	**76**	–	2	115	–	(1,564)	(119)
Loans outstanding at 31 December, net	–	–	**5,212**	–	**306**	**6,673**	–	**627**	**4,639**
Interest income on loans	–	**14**	**640**	–	870	718	–	344	611
Loan impairment charge	–	–	**(1)**	–	2	32	–	661	65
Deposits at 1 January	**36,730**	**171**	**5,903**	**36,410**	**726**	**8,999**	**12,098**	**506**	**6,919**
Deposits received during the year	**5,373**	**11,040**	**28,561**	35,365	24,660	21,574	41,646	16,185	36,658
Deposits repaid during the year	**(29,494)**	**(11,191)**	**(25,264)**	(32,147)	(25,229)	(22,254)	(16,851)	(16,127)	(33,522)
Other movements	**(973)**	**(3)**	**481**	(2,898)	14	(2,416)	(483)	162	(1,056)
Deposits at 31 December	**11,636**	**17**	**9,681**	**36,730**	**171**	**5,903**	**36,410**	**726**	**8,999**
Interest expense on deposits	**(1,738)**	**(26)**	**(612)**	(3,019)	(33)	(441)	(1,681)	(68)	(471)

	2012			2011			2010		
	Shareholders	**Associates**	**Key management personnel***	**Shareholders**	**Associates****	**Key management personnel***	**Shareholders**	**Associates**	**Key management personnel***
Other income	–	–	**121**	693	–	78	1,671	–	69
Borrowings at 1 January	–	–	–	–	–	–	–	–	–
Conversion of convertible subordinated debts***	**264,481**	–	–	–	–	–	–	–	–
Borrowings received during the year	**16,470**	–	–	–	–	–	–	–	–
Borrowings repaid during the year	**(56,506)**	–	–	–	–	–	–	–	–
Other movements	**8,996**	–	–	–	–	–	–	–	–
Borrowings at 31 December	**233,441**	–	–	–	–	–	–	–	–
Interest expense on borrowings	**(16,589)**	–	–	–	–	–	–	–	–
Interest rate swaps** at 1 January**	–	–	–	–	–	–	–	–	–
Conversion of convertible subordinated debts***	**6,882**	–	–	–	–	–	–	–	–
Payments during the year	**(3,040)**	–	–	–	–	–	–	–	–
Other movements	**942**	–	–	–	–	–	–	–	–
Interest rate swaps at 31 December	**4,783**	–	–	–	–	–	–	–	–
Net loss from interest rate swaps	**(942)**	–	–	–	–	–	–	–	–

* Key management personnel include members of BGH’s Board of Directors and Chief Executive Officer and Deputies of the Bank.

** During the year ended 31 December 2011 loans to two legal entities, controlling stakes of which were owned by a member of the Bank’s Management Board and a member of the Bank’s Supervisory Board, were outstanding. A total of GEL 775 interest income was recognised on these loans in the consolidated income statement for the year ended 31 December 2011. GEL 36 gross loan remained outstanding as at 31 December 2011 and was completely repaid during 2012.

*** On 24 February 2012 the EBRD and IFC utilised the equity conversion feature of subordinated convertible loans, becoming shareholders of the Group.

**** Interest rate swap agreements with IFC.

Compensation of key management personnel comprised the following:

	2012	2011	2010
Salaries and other benefits	**2,656**	2,803	4,564
– Among them, termination benefits	**–**	–	426
Share-based payments compensation (Notes 24 and 26)	**8,048**	8,308	7,156
– Among them, termination benefits	**–**	–	1,183
Social security costs	**24**	37	31
Total key management compensation	**10,728**	**11,148**	**11,751**

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 26). The number of key management personnel at 31 December 2012 was 15 (31 December 2011: 16, 31 December 2010: 13).”

Appendix 3 - Directors' Responsibility Statement

The following statement relates to, and is extracted from page 95 of, the Annual Report 2012. The statement was signed by order of the Board of Directors of the Company by Kate Bennett Rea, on behalf of KB Rea Ltd., Company Secretary. Responsibility is for the full Annual Report 2012 and not the extracted information presented in this announcement or in the Company's preliminary results announcement issued on 19 February 2013.

"DIRECTORS' RESPONSIBILITY STATEMENT

Each of the us listed in the Board of Directors section of this Annual Report confirms that to the best of his/her knowledge:

(a) the accompanying Consolidated Financial Statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of BGH and the Group as a whole; and

(b) the Directors' Report includes a fair review of the development and performance of the business and the position of BGH and Group as a whole, together with a description of the principal risks and uncertainties that they face."