

Bank of Georgia Announces Q1 2013 Results

Bank of Georgia Holdings plc (LSE: BGEO LN) (the “Bank”), the holding company of JSC Bank of Georgia and its subsidiaries, Georgia’s leading bank, announces today its consolidated results for Q1 2013 (IFRS based, derived from management accounts). The Bank reported Q1 2013 profit of GEL 42.0 million (US\$25.3 million/GBP16.7 million), or GEL 1.19 per share (US\$0.72 per share/GBP0.47 per share). Unless otherwise mentioned, all comparisons refer to Q1 2012 results.

- **Positive operating leverage**

- Net interest margin of 7.6%, compared to 7.3% in Q1 2012
- Revenue increased by GEL 13.1 million, or 12.0%, y-o-y, to GEL 123.0 million
- Positive operating leverage maintained, as operating expenses increased at a lower rate than revenue, up 7.1% y-o-y to GEL 53.9 million, translating into operating leverage of 4.9 percentage points
- Cost to Income ratio improved to 43.8% from 45.8%
- Profit before tax of GEL 50.5 million, up 5.7%
- Profit for the period increased to GEL 42.0 million, up 5.6%
- Return on Average Assets (ROAA) was 3.1% (3.5% in Q1 2012) and Return on Average Equity (ROAE) stood at 15.9% (19.0% in Q1 2012)

- **Strong balance sheet and capital position maintained as cost of funds continue to decline**

- Cost of Client Deposits declined to 6.4% compared to 8.1% in Q1 2012
- Cost of Funds declined to 6.7% compared to 8.3% in Q1 2012
- Net loan book increased by 8.9% y-o-y, while client deposits increased 14.9% y-o-y
 - In US\$ terms the net loan book increased by 9.0% reflecting the stable currency position
 - Retail Banking client deposits grew 21.3%, Asset and Wealth Management client deposits grew 25.2%, Corporate Banking deposits increased by a modest 2.2%, reflecting the targeted outflow of high-interest paying deposits
- Cost of Risk improved quarter on quarter, declining to 1.4% from 1.8%, in Q4 2012, up from 1.0% in Q1 2012. Strong funding and liquidity position with a Net Loans to Customer Funds ratio of 104.9%. Net Loans to Customer Funds and Long-Term DFI* Funding ratio was 85.2%. The National Bank of Georgia (NBG) liquidity ratio of 44.1%, compared to 36.0% a year ago and to a 30% minimum requirement by the NBG
- BIS Tier 1 capital adequacy ratio unchanged at 23.2%
- Book Value per Share increased by 15.9% y-o-y to GEL 31.04 (US\$18.72/GBP12.32)
- Balance sheet leverage remained low at 4.0 times at 31 March 2013, compared to 3.7 times a year ago and 4.3 times in the previous quarter

- **Business highlights**

- Retail Banking continues to deliver strong franchise growth, supported by the successful roll-out of the Express Banking strategy in 2012, adding 655 new Express Pay terminals and 244,360 Express cards
- Corporate Banking reduced its cost of deposit to a record low of 5.7%
- Asset and Wealth Management continued to expand its franchise with Assets under Management increasing by 25.2% to GEL 613.8 million in Q1 2013. Since the launch of the Certificate of Deposit (CD) programme in January 2013, the amount of CDs issued to AWM clients reached GEL 41.6 million as of 31 March 2013
- Aldagi BCI, our Insurance and Healthcare business, reported a Q1 2013 profit of GEL 5.2 million, up from GEL 2.7 million in Q1 2012. Affordable Housing pre-sold approximately 50% of the apartments of its second housing project, currently in the construction process

“Our Q1 2013 results demonstrate the resilience of the Bank’s business strategy and benefited from the strength of our retail banking business, good performances from our non-banking subsidiaries and strong cost management throughout the business. As expected, since the change of Government last October, corporate activity remained subdued as businesses await finalisation of changes in legislation such as amendments in the labour code and the introduction of a new competition law. While year-on-year loan growth remains robust at 8.9%, the loan book declined by 4.4% in the seasonally quiet first quarter, predominantly reflecting subdued corporate loan book growth and the prepayment of a single large corporate loan. During the quarter, retail banking and SME lending increased by 1.8%. Client deposits continued to grow strongly and increased 7.0% during the first three months of the year.

The core fundamentals of our business remain strong. Improving economies of scale, supported by the roll-out of our Express banking strategy over the last few quarters, give us increasing flexibility in the recent slower economic environment as reflected in our continued positive operating leverage. We are very pleased with the successful development of our Express strategy, which is aimed at increasing our fee income generating capabilities, further improving our cost base and attracting the still significant non-banked population. During the quarter we added 538 Express Pay terminals bringing the total to 759 and issued 51,000 new contactless Express cards to our customers, which now amount to more than 244,000. Asset quality during the quarter remained robust with a reduction in the impairment charge on loans to customers compared to the fourth quarter of last year. However, this was offset by an additional charge of GEL 3.3 million relating to the off-balance sheet exposures of a single corporate customer in the infrastructure sector.

In Q1 2013, we successfully continued our strategy to reduce the cost of client deposits as further strong deposit inflows and the strength of our franchise allowed us to continue reducing interest rates on client deposits, in particular on US\$ denominated deposits. We now offer our lowest ever contractual rates on deposits, having gradually decreased the US\$ one year rate offered from 8.0% at the end of last year to 6.5%, which is the lowest deposit rate among the leading banks in Georgia. Despite the sharp decrease in the cost of deposits, retail banking deposit balances continued to grow at a healthy rate, up 5.9% since the beginning of the year. As a result, the cost of client deposits declined to 6.4% in the quarter, compared to 6.6% in Q4 2012 and 8.1% in Q1 2012. The rate cuts, which took place towards the end of the quarter has not yet been fully reflected in cost of funds in Q1 2013. Our Net Loan to Customer Funds ratio improved to 104.9% and our liquidity ratio increased further to 44.1%, substantially exceeding the regulatory minimum requirement of 30%. Our Tier I Capital (BIS) ratio of 23.2% reflects the continued strong internal capital generation capability of the Group and, combined with a high return on assets and shareholders’ equity, demonstrates the strength of our balance sheet.

This balance sheet strength will be further enhanced as we seek to capitalise on the de-dollarization process underway within Georgia, which is expected to be boosted by the recently introduced Lari lending support program by the NBG. The National Bank intends to engage in loan repo transactions with commercial banks at a 20% haircut from the nominal value of Lari denominated mortgages as well as Lari denominated micro and SME loans. NBG will lend to the Bank at a floating rate equal to the NBG regular refinancing market rate. This programme will be beneficial from a regulatory capital perspective, since Lari denominated loans require lower regulatory capital. Furthermore, a lower US\$ nominal rate on deposits will make Lari denominated deposits more attractive for our customers given the current high differential between Lari and USD denominated deposits. This will facilitate de-dollarisation of liabilities as well.

From a political perspective, the transition to the new Government over the last few quarters has continued to progress smoothly with, notably, significantly improved diplomatic and trade relations with Russia starting to be evident. After the expected slowdown in economic growth over the past few quarters, we are beginning to see signs of improved confidence in the economy. GDP growth in the first quarter of the year was estimated at an annualised rate of 1.7%, a lower level than in recent years but not yet reflecting an anticipated pick up in economic activity in the second half of 2013 to support the Government’s budgeted GDP growth for the year. During the first quarter, Georgia experienced a 5.4% increase in exports and further strong growth in tourist numbers, up 37% compared to the first quarter of last year, to underpin this important driver of economic growth.

Q1 2013 was also an eventful quarter with regard to our shareholder base and governance. In March, East Capital, our long-term shareholder, successfully placed more than 10% of our outstanding shares overnight, as a result of the forthcoming closure of their Financials Fund. This has resulted in many new high quality institutional investors becoming shareholders, supporting our desire to widen our institutional shareholder base, increase our stock liquidity and improve the level of free float on our shareholder register. We are pleased with the markedly improved liquidity of the stock, which was the main rationale behind the London Stock Exchange premium listing in 2012. In 2013, to the date of this report, average daily trading volume reached 190,000 shares (GBP 2.7 million).

With all the core fundamentals in place, together with an increasing corporate lending pipeline, substantially increasing money transmission flows and continued consumer confidence, we are well positioned to continue delivering on our proven business strategy as we start to see positive signs of a return to more historic levels of economic growth in the country”, commented *Irakli Gilauri*, Chief Executive Officer of Bank of Georgia Holdings PLC and JSC Bank of Georgia.

1.6577 GEL/US\$ 31 March 2013
 1.6600 GEL/US\$ 31 March 2012
 1.6567 GEL/US\$ 31 December 2012
 2.5189 GEL/GBP 31 March 2013
 2.6578 GEL/GBP 31 March 2012
 2.6653 GEL/GBP 31 December 2012

FINANCIAL SUMMARY

BGH (Consolidated, Unaudited, IFRS-based)

Income Statement Summary

GEL thousands, unless otherwise noted

	Q1 2013	Q1 2012	Change Y-O-Y	Q4 2012	Change Q-O-Q
Revenue ¹	122,976	109,844	12.0%	128,288	-4.1%
Operating expenses	(53,880)	(50,318)	7.1%	(53,966)	-0.2%
Operating income before cost of credit risk	69,096	59,526	16.1%	74,322	-7.0%
Cost of credit risk ²	(17,278)	(7,380)	134.1%	(16,124)	7.2%
Net operating income	51,818	52,146	-0.6%	58,198	-11.0%
Net non-operating expense	(1,365)	(4,400)	-69.0%	(4,189)	-67.4%
Profit	41,997	39,758	5.6%	46,875	-10.4%
Earning per share (basic)	1.19	1.21	-1.7%	1.33	-10.5%

BGH (Consolidated, Unaudited, IFRS-based)

Statement of Financial Position

	Q1 2013	Q1 2012	Change Y-O-Y	Q4 2012	Change YTD
Total assets	5,533,858	4,490,157	23.2%	5,655,595	-2.2%
Net loans ³	2,954,724	2,713,752	8.9%	3,092,320	-4.4%
Customer funds ⁴	2,817,677	2,625,228	7.3%	2,693,025	4.6%
Tier I Capital Adequacy Ratio (BIS) ⁵	23.2%	23.2%		22.0%	
Total Capital Adequacy Ratio (BIS) ⁵	28.2%	29.7%		27.0%	
NBG Tier I Capital Adequacy Ratio ⁶	16.8%	15.2%		13.8%	
NBG Total Capital Adequacy Ratio ⁶	17.1%	18.2%		16.2%	
Leverage (times) ⁷	4.0	3.7		4.3	

These management accounts are neither audited nor reviewed by auditors.

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 finance lease receivables

⁴ Customer funds equal amounts due to customers

⁵ BIS Tier I Capital Adequacy Ratio equals consolidated Tier I regulatory 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 regulatory 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 (NBG)

⁷ Leverage (times) equals Total Liabilities divided by Total Equity

DISCUSSION OF RESULTS

Comparisons refer to the prior-year quarter, unless noted otherwise.

Revenue

<i>GEL thousands, unless otherwise noted</i>	Q1 2013	Q1 2012	Change Y-O-Y	Q4 2012	Change Q-O-Q
Loans to customers	129,458	118,425	9.3%	134,451	-3.7%
Investment securities ⁸	8,007	9,824	-18.5%	8,018	-0.1%
Amounts due from credit institutions	2,615	4,212	-37.9%	2,141	22.1%
Finance lease receivables	1,500	2,012	-25.4%	2,327	-35.5%
Interest income	141,580	134,473	5.3%	146,937	-3.6%
Amounts due to customers	(43,918)	(53,834)	-18.4%	(46,284)	-5.1%
Amounts due to credit institutions	(24,990)	(18,709)	33.6%	(23,943)	4.4%
Interest expense	(68,908)	(72,543)	-5.0%	(70,227)	-1.9%
Net interest income before interest rate swaps	72,672	61,930	17.3%	76,710	-5.3%
Net loss from interest rate swaps	(76)	(768)	-90.1%	(171)	-55.6%
Net interest income	72,596	61,162	18.7%	76,539	-5.2%
Fee and commission income	26,562	24,122	10.1%	28,028	-5.2%
Fee and commission expense	(6,066)	(4,406)	37.7%	(6,906)	-12.2%
Net fee and commission income	20,496	19,716	4.0%	21,122	-3.0%
Net insurance premiums earned	31,744	12,487	154.2%	32,956	-3.7%
Net insurance claims incurred	(20,018)	(7,813)	156.2%	(20,698)	-3.3%
Net insurance revenue	11,726	4,674	150.9%	12,258	-4.3%
Healthcare revenue	13,070	10,260	27.4%	15,751	-17.0%
Cost of healthcare services	(9,179)	(5,483)	67.4%	(8,626)	6.4%
Net healthcare revenue⁹	3,891	4,777	-18.5%	7,125	-45.4%
Net gain from investment securities	1,284	796	61.3%	73	NMF ¹⁰
Net gain from foreign currencies	9,452	14,358	-34.2%	10,878	-13.1%
Other operating income	3,531	4,361	-19.0%	293	NMF
Other operating non-interest income	14,267	19,515	-26.9%	11,244	26.9%
Revenue	122,976	109,844	12.0%	128,288	-4.1%

⁸ Investment securities primarily consist of Georgian government treasury bills and bonds and National Bank of Georgia's Certificates of Deposits (NBG CDs)

⁹ For the Net healthcare revenue disclosures please see the Insurance and Healthcare segment discussion

¹⁰ Not meaningful

The Bank reported Q1 2013 revenue growth of 12.0% y-o-y to GEL 123.0 million. Net interest income continued to be the main driver of growth, which increased by 18.7% y-o-y to GEL 72.6 million. Our Insurance and Healthcare businesses contributed GEL 15.6 million to the consolidated revenue, increasing their combined contribution from 8.6% in Q1 2012 to 12.7% in Q1 2013.

Interest income from loans to customers increased by 9.3% y-o-y driven by year-on-year growth in loans to customers on the back of loan yield declining by 70 basis points (bps) to 16.9%. The decline in interest income from investment securities and amounts due from credit institutions was largely a result of lower yields on government treasury bills and NBG CDs held by the Bank, reflecting the NBG's rate reductions as a measure against the deflationary pressures of the past several months.

As a result of active liability management, interest expense on amounts due to customers decreased 18.4% as annualised cost of client deposits decreased by 165 bps y-o-y to a record low of 6.4%, leading to a 5.0% decline in interest expense on the back of an 18.5% increase in average interest bearing liabilities. Despite the significant deposit rate cuts throughout the twelve month period, client deposits grew by 14.9% y-o-y to GEL 2,807.1 million. Similarly, the cost of amounts due to credit institutions was reduced to 7.1% from 9.0% in Q1

2012, as the Bank replaced its higher cost funding base with less expensive funding. On a quarter-on-quarter basis, the cost of amounts due to credit institutions increased to 7.1% compared to the exceptionally low cost of amounts due to credit institutions of 6.3% during the prior quarter, reflecting a one-off adjustment of the amortised cost of three outstanding loan facilities in Q4 2012 and a reduction of lower-yielding interbank deposit balances, which amounted to GEL 153.4 million at 31 March 2013 compared to GEL 431.4 in Q4 2012. The increase more than offset the declining cost of client deposits, resulting in the quarter-on-quarter increase in the cost of funds to 6.7% compared to 6.6% in Q4 2012.

On a quarterly basis, the 4.1% revenue decrease largely reflected a decline in net interest income as a result of subdued corporate lending demand and a decreased loan yield reflecting the excess liquidity in the banking sector in general and intensified competition during the quarter.

Net Interest Margin

<i>GEL thousands, unless otherwise noted</i>	Q1 2013	Q1 2012	Change Y-O-Y	Q4 2012	Change Q-O-Q
Net interest income	72,596	61,162	18.7%	76,539	-5.2%
Net Interest Margin	7.6%	7.3%		7.8%	
Average interest earning assets ¹¹	3,873,126	3,354,916	15.4%	3,891,637	-0.5%
Average interest bearing liabilities ¹¹	4,203,717	3,547,834	18.5%	4,264,983	-1.4%
Excess liquidity ¹²	475,708	186,293	155.4%	352,675	34.9%

¹¹Monthly averages are used for calculation of average interest earning assets and average interest bearing liabilities

¹²Excess liquidity is the excess amount of the liquid assets, as defined per NBG, which exceeds the minimal amount of the same liquid assets for the purposes of the minimal 30% liquidity ratio per NBG definitions.

The Net Interest Margin (NIM) in Q1 2013 increased from 7.3% to 7.6% y-o-y despite higher excess liquidity. While cost of funds plummeted 160 bps, and loan yields declined by 70 bps, the NIM increased just 30 bps on the back of higher liquidity. Adjusting the Q1 2013 NIM to the same liquidity level of Q1 2012 would result in the NIM of 8.1%¹³. On a q-o-q basis however, the NIM decreased 30 basis points as a result of a 5.2% decline in net interest income, and lower yields on loans and liquid assets. The q-o-q decline in the NIM was also a result of further increase in excess liquidity during the quarter from GEL 352.7 million at the end of Q4 2012 to GEL 475.7 million at the end of Q1 2013.

Net fee and commission income

<i>GEL thousands, unless otherwise noted</i>	Q1 2013	Q1 2012	Change Y-O-Y	Q4 2012	Change Q-O-Q
Fee and commission income	26,562	24,122	10.1%	28,028	-5.2%
Fee and commission expense	(6,066)	(4,406)	37.7%	(6,906)	-12.2%
Net fee and commission income	20,496	19,716	4.0%	21,122	-3.0%

Fee and commission income increased 10.1% y-o-y to GEL 26.6 million with the growth mostly attributable to the expansion of Express banking, through which the Bank delivers cost-effective self-service transactional and remote banking facilities that support strong growth of the overall banking operations.

¹³ Q1 2013 daily average excess liquidity amount was assumed to be equal to Q1 2012 daily average excess liquidity amount. Entire surplus amount over that level was assumed to be used for repayment of foreign currency denominated funding.

Net insurance revenue and net healthcare revenue

<i>GEL thousands, unless otherwise noted</i>	Q1 2013	Q1 2012	Change Y-O-Y	Q4 2012	Change Q-O-Q
Net insurance premiums earned	31,744	12,487	154.2%	32,956	-3.7%
Net insurance claims incurred	(20,018)	(7,813)	156.2%	(20,698)	-3.3%
Net insurance revenue	11,726	4,674	150.9%	12,258	-4.3%
Healthcare revenue	13,070	10,260	27.4%	15,751	-17.0%
Cost of healthcare services, of which:	(9,179)	(5,483)	67.4%	(8,626)	6.4%
<i>Salaries and other employee benefits</i>	(5,052)	(3,855)	31.1%	(5,793)	-12.8%
<i>Depreciation expenses</i>	(1,163)	-	-	-	-
<i>Other operating expenses</i>	(2,964)	(1,628)	82.1%	(2,833)	4.6%
Net healthcare revenue¹⁴	3,891	4,777	-18.5%	7,125	-45.4%

¹⁴For the Net healthcare revenue disclosures please see the Insurance and Healthcare segment discussion

The Bank's insurance and healthcare business, Aldagi BCI, continued its strong performance in Q1 2013 after delivering a record earnings in 2012 and becoming the undisputed leader in the Georgian insurance market. In Q1 2013, net insurance revenue grew by 150.9% y-o-y to GEL 11.7 million and its contribution to the group's total revenue more than doubled compared to the same period last year (from 4.3% to 9.5%).

The growth of the healthcare business, following the expansion of healthcare operations by Aldagi BCI, led to a 27.4% y-o-y increase in healthcare revenue. Cost of healthcare services increased 67.4% y-o-y, mainly as a result of accounting reclassification of the additional depreciation and utility expenses included in this item in Q1 2013, which were presented in operating expenses in 2012. In line with the Bank's strategy of the expansion of its healthcare business and its aim to increase the concentration of its claims expenditures within the group, Aldagi BCI increased its spending on its healthcare facilities. Aldagi BCI has almost doubled claims directed to its healthcare business subsidiary, generating increasing revenue for its own healthcare business. As a result, healthcare operations that accounted for 25.3% of insurance claims of Aldagi BCI in Q1 2012 and 19.4% of insurance claims of Aldagi BCI in Q4 2012, now account for 36.2% in Q1 2013.

Other operating non-interest income

<i>GEL thousands, unless otherwise noted</i>	Q1 2013	Q1 2012	Change Y-O-Y	Q4 2012	Change Q-O-Q
Net gain from investment securities	1,284	796	61.3%	73	NMF
Net gain from foreign currencies, adjusted for one-off foreign currency gain ¹⁵	9,452	11,409	-17.2%	10,878	-13.1%
Other operating income ¹⁶	3,531	4,361	-19.0%	293	NMF
Other operating non-interest income, adjusted for one off foreign currency gain	14,267	16,566	-13.9%	11,244	26.9%
One-off foreign currency gain	-	2,949	-	-	-
Other operating non-interest income	14,267	19,515	-26.9%	11,244	26.9%

¹⁵One-off foreign currency (FX) gain by BNB

¹⁶Other operating income includes net revenue from the sale of goods of the Bank's non-banking subsidiaries

Other operating non-interest income, adjusted for last year's one-off foreign currency gain, decreased 13.9% y-o-y to GEL 14.3 million, mainly as a result of a 17.2% decline in net gain from foreign currencies, adjusted for the one off gain, due to slower levels of economic activity in Q1 2013. However, on q-o-q basis, other operating non-interest income increased 26.9%, largely reflecting a strong performance of the non-core businesses of the Bank during the quarter.

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

<i>GEL thousands, unless otherwise noted</i>	<u>Q1 2013</u>	<u>Q1 2012</u>	<u>Change Y-O-Y</u>	<u>Q4 2012</u>	<u>Change Q-O-Q</u>
Salaries and other employee benefits	(32,501)	(25,833)	25.8%	(32,383)	0.4%
General and administrative expenses	(14,057)	(15,764)	-10.8%	(15,278)	-8.0%
Depreciation and amortization expenses	(6,593)	(6,764)	-2.5%	(7,303)	-9.7%
Other operating expenses	(729)	(1,957)	-62.7%	998	NMF
Operating expenses	(53,880)	(50,318)	7.1%	(53,966)	-0.2%
Operating income before cost of credit risk	69,096	59,526	16.1%	74,322	-7.0%
Cost of credit risk	(17,278)	(7,380)	134.1%	(16,124)	7.2%
Net operating income	51,818	52,146	-0.6%	58,198	-11.0%
Net non-operating expense	(1,365)	(4,400)	-69.0%	(4,189)	-67.4%
Profit before income tax expense	50,453	47,746	5.7%	54,009	-6.6%
Income tax expense	(8,456)	(8,042)	5.1%	(7,134)	18.5%
Profit from continuing operations	41,997	39,704	5.8%	46,875	-10.4%
Net gain from discontinued operations	-	54	-100.0%	-	-
Profit	41,997	39,758	5.6%	46,875	-10.4%

Operating expenses grew 7.1% to GEL 53.9 million, lagging behind the 12.0% growth in revenue. As a result, the Bank's y-o-y operating leverage stood at 4.9 percentage points during the quarter.

The year-on-year increase in expenses primarily reflected a 25.8% growth in salaries and other employee benefits, on the back of 55.8% increase in headcount over last year due to acquisitions and to service the group's growing revenue base. The Cost to Income ratio improved to 43.8% from 45.8% in Q1 2012, benefiting from ongoing cost measures undertaken by the Bank and the expansion of the cost effective Express banking.

Operating expenses decreased by 0.2% compared to Q4 2012 with further progress made on cost initiatives across the business, with particular emphasis on reducing general and administrative expenses, which declined 8.0% q-o-q.

The Bank's operating income before the cost of credit risk increased by 16.1% y-o-y to GEL 69.1 million.

The cost of credit risk increased to GEL 17.3 million from GEL 16.1 million in Q4 2012 and GEL 7.4 million in Q1 2012. The increase in cost of credit risk compared to prior quarter largely reflected an impairment in the amount of GEL 3.3 million of an off-balance sheet guarantee of a corporate client in the infrastructure sector, a material portion of whose total exposure the Bank provisioned in Q4 2012. In Q4 2012, the Bank already recognised an impairment charge for this borrower and initiated bankruptcy procedures. The Bank will continue to assess objective evidence of further impairment into 2013 as bankruptcy procedures continue.

As a result of this additional provisioning, the cost of risk increased from 1.0% to 1.4% y-o-y, but improved considerably q-o-q from 1.8%. The allowance loan impairment stood at GEL 113.9 million in Q1 2013 or 3.7% of total gross loans as of 31 March 2013 compared to 4.2% as of 31 March 2012 and 3.5% as of 31 December 2012.

The Bank's non-performing loans (NPLs) increased to GEL 131.6 million as of 31 March 2013 from GEL 94.5 million a year earlier and from GEL 126.3 million in the beginning of the year. NPLs are defined as the principal and interest on loans overdue for more than 90 days and any additional losses estimated by management. The Bank's NPLs to total gross loans ratio stood at 4.3% as of 31 March 2013, 3.9% as of 31 December 2012 and 3.3% a year ago, an increase mostly attributed to the decline in the loan balances in Q1 2013. NPL coverage ratio was 86.5%, while the NPL coverage ratio adjusted for the discounted value of collateral was 111.1% as of 31 March 2013.

The Bank's net operating income totalled GEL 51.8 million, down 0.6% year-on-year. Net non-operating expense declined by 69.0% to GEL 1.4 million, reflecting the absence of last year's costs associated with the tender offer and premium listing.

As a result of the foregoing, profit before income tax in Q1 2013 totalled GEL 50.5 million, an increase of 5.7% y-o-y. The Bank posted profit of GEL 42.0 million for the period, up 5.6% year-on-year.

Balance Sheet highlights

As of 31 March 2013, the Bank's total assets stood at GEL 5,533.9 million, an increase of 23.2% y-o-y. The growth in total assets was primarily driven by a 51.7% increase in liquid assets to GEL 1,558.7 million, which comprise NBG CDs, Georgian government treasury bills and bonds and interbank deposits and cash and cash equivalents.

Net loan book increased by GEL 241.0 million or 8.9% y-o-y to GEL 2,954.7 million. The loan book grew 9.0% in US dollar terms, which is the issuing currency of the majority of loans. The growth of the loan portfolio over the last twelve months was driven by a 12.0% increase in Retail Banking lending to GEL 1,371.9 million and a 9.4% increase in Corporate Banking lending to GEL 1,591.1 million. Loans denominated in foreign currencies (primarily in US\$) accounted for 65.5% of the Bank's net loan book as of 31 March 2013, compared to 68.3% as of 31 December 2012 and 67.4% as of 31 March 2012.

Total liabilities amounted to GEL 4,424.0 million, up 24.9% y-o-y, driven by the growth in amounts due to credit institutions, up 79.8% to GEL 1,355.0 million as a result of the Eurobond issued last year. The Bank's customer funds grew 7.3% to GEL 2,817.7 million y-o-y and 4.6% year-to-date, while the Cost of Client Deposits reached record low levels at 6.4% in Q1 2013, compared to 6.6% in Q4 2012 and 8.1% in Q1 2012. Notably, the contractual rates on US\$ denominated one year deposits reached the historical low of 6.5%, a decrease from 8.0% at the end of 2012. Reflecting the de-dollarisation trend in the country, client deposits denominated in foreign currency decreased to 65.4% from 68.7% in the beginning of the year.

Total equity attributable to shareholders of the group totalled GEL 1,057.3 million, a 19.0% y-o-y and 4.6% year-to-date increase.

The Bank's Book Value per share on 31 March 2012 stood at GEL 31.04 (US\$18.72/GBP12.32) compared to GEL 30.33 (US\$18.31/GBP11.38) on 31 December 2012 and GEL 26.78 (US\$16.13/GBP10.08) as of 31 March 2012.

Liquidity, Funding and Capital Management

<i>GEL thousands, unless otherwise noted</i>	Q1 2013	Q1 2012	Change Y-O-Y	Q4 2012	Change Q-O-Q
Amounts due to credit institutions, of which:	1,355,027	753,821	79.8%	1,657,162	-18.2%
<i>Borrowed funds, of which from</i>	1,201,582	671,795	78.9%	1,225,793	-2.0%
<i>Developmental Financial Institutions</i>	649,183	542,718	19.6%	672,977	-3.5%
<i>Inter-bank loans and deposits</i>	153,445	82,026	87.1%	431,369	-64.4%
Customer Funds	2,817,677	2,625,228	7.3%	2,693,025	4.6%
<i>Client deposits, of which</i>	2,807,064	2,442,007	14.9%	2,622,911	7.0%
<i>CDs</i>	47,806	-	NMF	-	NMF
<i>Promissory notes</i>	10,613	183,221	-94.2%	70,114	-84.9%
Net Loans / Customer Funds	104.9%	103.4%		114.8%	
Liquid assets	1,558,685	1,027,553	51.7%	1,624,317	-4.0%
Liquid assets as percent of total assets	28.2%	22.9%		28.7%	
Liquid assets as percent of total liabilities	35.2%	29.0%		35.3%	
NBG liquidity ratio	44.1%	36.0%		41.1%	
Excess liquidity	475,708	186,293	155.4%	352,675	34.9%

The Bank continues to take a conservative approach to managing the balance sheet, maintaining a strong liquidity position, considerably in excess of conservative regulatory requirements. The liquidity ratio, as per requirements of the National Bank of Georgia, stood at 44.1% against the required minimum of 30%, while liquid assets, comprised of cash and cash equivalents, investment securities consisting of National Bank of Georgia CDs, government treasury bills and bonds and interbank deposits accounted for 28.2% of total assets and 35.2% of total liabilities as of 31 March 2013.

The 78.9% year-on-year increase in borrowed funds was largely attributed to the Eurobond placed by the Bank in July 2012. The cost of amounts due to credit institutions declined from 9.0% to 7.1% y-o-y, as the Bank increased its amounts due to credit institutions by 79.8%, as the Bank succeeded in replacing costly borrowings with lower rate international funding throughout the year. Slower growth of the loan book resulted in a stable Net Loans to Customer Funds ratio of 104.9% compared to 103.4% last year. Net Loans to Customer Funds and DFI ratio was 85.2%, compared to 85.7% in Q1 2012.

The Bank ended the year with an extremely strong capital position with a Tier I Capital ratio (BIS) of 23.2% a further improvement from 22.0% at the end of 2012.

The composition of the balance sheet in Q1 2013 reflected the Bank's successful efforts in 2012 to optimise funding costs. Client deposits grew 14.9% y-o-y and 7.0% q-o-q on the back of declining contractual deposit rates, which were reduced from 8.0% on US\$ 12 month deposit in Q4 2012 and 8.5% in Q1 2012 to 6.5% by the end of Q1 2013. This led to reduction of foreign currency cost of deposits for the Bank from 7.1% in Q1 2012 to 6.6% in Q4 2012. Further rate cuts on US\$ deposits in March 2013 have not yet been reflected in the 6.6% foreign currency deposit cost of Q1 2013, which remained flat at 6.6% compared to the prior quarter. Deposit costs in GEL amounted to 6.2% in Q1 2013 compared to 6.6% in Q4 2012 and 9.2% in Q1 2012.

Currency denomination of selected balance sheet items

<i>GEL thousands, unless otherwise noted</i>	GEL					Foreign Currency (FC)				
	Q1 2013	Q1 2012	Change Y-O-Y	Q4 2012	Change Q-O-Q	Q1 2013	Q1 2012	Change Y-O-Y	Q4 2012	Change Q-O-Q
Loans to customers and finance lease receivables, net	1,019,355	883,601	15.4%	978,773	4.1%	1,935,369	1,830,151	5.7%	2,113,547	-8.4%
Amounts due to customers, of which:										
<i>Client deposits</i>	970,735	881,796	10.1%	822,248	18.1%	1,846,942	1,743,432	5.9%	1,870,777	-1.3%
<i>Promissory notes</i>	969,877	878,192	10.4%	821,404	18.1%	1,837,187	1,563,815	17.5%	1,801,507	2.0%
	858	3,604	-76.2%	844	1.7%	9,755	179,617	-94.6%	69,270	-85.9%
Amounts due to credit institutions	47,900	24,953	92.0%	40,142	19.3%	1,307,127	728,868	79.3%	1,617,020	-19.2%

The 31 March 2013 balance sheet also demonstrates the positive trend of de-dollarisation, as reflected in the 10.1% y-o-y increase in Lari denominated customer funds compared to the 5.9% increase in US\$ denominated customer funds. Similarly, Lari denominated loans grew 15.4% y-o-y compared the 5.7% increase of the US\$ denominated loans on the balance sheet. Lari denominated loans accounted for 34.8% of total loans as of 31 March 2013, 31.7% as of 31 December 2012, and 32.6% as of 31 March 2012, while Lari denominated customer funds accounted for 34.5% of total client funds, compared to 30.5% and 33.6% as of 31 December 2012 and 31 March 2012, respectively.

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 asset and wealth management (AWM), insurance and healthcare (Aldagi BCI), Affordable Housing (M2 RE) in Georgia and BNB in Belarus, excluding inter-company eliminations.

Retail Banking

<i>GEL thousands, unless otherwise noted</i>	<u>Q1 2013</u>	<u>Q1 2012</u>	<u>Change Y-O-Y</u>	<u>Q4 2012</u>	<u>Change Q-O-Q</u>
Net interest income	42,989	38,968	10.3%	48,049	-10.5%
Net fee and commission income	12,516	11,705	6.9%	13,773	-9.1%
Net gain from foreign currencies	3,423	2,958	15.7%	4,031	-15.1%
Other operating non-interest income	1,110	1,255	-11.6%	(710)	NMF
Revenue	60,038	54,886	9.4%	65,143	-7.8%
Operating expenses	(28,244)	(26,353)	7.2%	(27,013)	4.6%
Operating income before cost of credit risk	31,794	28,533	11.4%	38,130	-16.6%
Cost of credit risk	(9,589)	(4,698)	104.1%	10,619 ¹⁷	NMF
Net non-operating expense	(264)	(1,709)	-84.6%	(1,708)	-84.5%
Profit before income tax expense	21,941	22,126	-0.8%	47,041	-53.4%
Income tax expense	(3,341)	(3,398)	-1.7%	(5,492)	-39.2%
Profit from continuing operations	18,600	18,728	-0.7%	41,549	-55.2%
Net gain from discontinued operations	-	25	-100.0%	-	-
Profit	18,600	18,753	-0.8%	41,549	-55.2%
Net loans, standalone	1,371,948	1,225,012	12.0%	1,348,331	1.8%
Client deposits, standalone	865,226	713,337	21.3%	816,709	5.9%
<i>Loan yield</i>	<i>20.3%</i>	<i>20.5%</i>		<i>21.3%</i>	
<i>Cost of deposits</i>	<i>6.1%</i>	<i>6.5%</i>		<i>5.8%</i>	
<i>Cost / income ratio</i>	<i>47.0%</i>	<i>48.0%</i>		<i>41.5%</i>	

¹⁷For collective impairment assessment, history of losses was changed from seven year approach to three year approach in Retail Banking in 2012.

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.

In Q1 2013, the 9.4% y-o-y growth in Retail Banking revenue was driven by the healthy 10.3% increase in net interest income. This resulted from the strong year-on-year growth of the retail net loan book (up 12.0% to GEL 1,371.9 million) as a result of the strong demand and successful marketing efforts reflected under "Highlights" below. Loan yields have stayed largely flat, decreasing by 20 bps to 20.3%. The 6.9% increase in net fees and commission income resulted primarily from growth of the Bank's card operations, boosted by the launch of the Express banking franchise.

In Q1 2013, Retail Banking reported its tenth successive quarter of positive operating leverage, with expenses growing by 7.2% compared to revenue growth rate of 9.4%. As a result, operating income before cost of credit risk grew by 11.4% to GEL 31.8 million.

The Retail Banking cost of credit risk increased by GEL 4.9 million to GEL 9.6 million, a result of low cost of risk in Q1 2012 due to strong recoveries as well as weakening of the consumer and credit card portfolio in Q1

2013. Retail Banking profit before income tax expense amounted to GEL 21.9 million. After income tax of GEL 3.3 million, profit stood at GEL 18.6 million.

Deposits from retail clients increased by 21.3% to GEL 865.2 million as of 31 March 2013 despite interest rate reductions that led to a decrease in the cost of retail deposits from 6.5% in Q1 2012 to its record low of 6.1% in Q1 2013. Particularly strong growth was achieved in current account balances as a result of our strategy to grow our Express banking service aimed at attracting emerging mass market customers and the unbanked population.

Highlights

- Increased number of Express Pay terminals to 759 from 104 in Q1 2012. Express Pay terminals are used for bank transactions such as credit card and consumer loan payments, utility bill payments and mobile telephone top-ups.
- Stepped up the issuance of Express cards, first contactless cards in Georgia, which also serve as a metro and bus transport payment card and offer loyalty programmes to clients. Since the launch on 5 September 2012, 244,360 Express cards have been issued as of the date of this report.
- Issued 76,075 debit cards, including Express cards, in Q1 2013 bringing the total debit cards outstanding to 727,019 up 27.9% y-o-y.
- Issued 18,097 credit cards of which 15,110 were American Express cards in Q1 2013. A total of 171,495 American Express cards have been issued since the launch in November 2009. The total number of outstanding credit cards amounted to 111,591 (of which 85,573 were American Express Cards).
- Outstanding number of Retail Banking clients totalled 1,102,341 up 18.9% y-o-y.
- Acquired 448 new clients in the Solo business line, the Bank's mass affluent sub-brand in Q1 2013. As of 31 March 2013, the number of Solo clients reached 5,713.
- Increased Point of Sales (POS) footprint: as of 31 March 2013, 231 desks at 522 contracted merchants, up from 186 desks and 390 merchants as of 31 March 2012. GEL 12.4 million POS loans were issued in Q1 2013, compared to GEL 10.8 million during the same period last year. POS loans outstanding amounted to GEL 27.8 million, up 15.8% over the one year period.
- POS terminals outstanding reached 3,899, up 32.6% y-o-y. The volume of transactions through the Bank's POS terminals grew 34.7% y-o-y to GEL 88.5 million, while number of POS transactions increased by 0.4 million y-o-y from 0.9 million in Q1 2012 to 1.3 million in Q1 2013.
- Consumer loan originations of GEL 126.6 million resulted in consumer loans outstanding totalling of GEL 363.4 million as of 31 March 201, up 22.5% y-o-y and up 3.7% year-to-date.
- Micro loan originations of GEL 91.5 million resulted in micro loans outstanding totalling GEL 271.8 million as of 31 March 2013, up 10.9% y-o-y and up 5.4% year-to-date.
- SME loan originations of GEL 36.0 million resulted in SME loans outstanding totalling GEL 112.0 million as of 31 March 2013, up 42.7% y-o-y and up 5.1% year-to-date.
- Mortgage loans originations of GEL 28.1 million resulted in mortgage loans outstanding of GEL 385.1 million as of 31 March 2012, up 5.8% y-o-y and down 0.9% year-to-date.
- RB loan yield amounted to 20.3% in Q1 2013 (20.5% in Q1 2012) and RB deposit cost declined to 6.1% in Q1 2013 (6.5% in Q1 2012).

Corporate Banking

<i>GEL thousands, unless otherwise noted</i>	Q1 2013	Q1 2012	Change Y-O-Y	Q4 2012	Change Q-O-Q
Net interest income	25,177	18,867	33.4%	25,197	-0.1%
Net fee and commission income	6,436	7,082	-9.1%	6,014	7.0%
Net gain from foreign currencies	5,518	8,341	-33.8%	6,354	-13.2%
Other operating non-interest income	1,479	1,349	9.6%	175	NMF
Revenue	38,610	35,639	8.3%	37,740	2.3%
Operating expenses	(12,366)	(11,179)	10.6%	(12,391)	-0.2%
Operating income before cost of credit risk	26,244	24,460	7.3%	25,349	3.5%
Cost of credit risk	(6,916)	(1,256)	NMF	(26,455)	-73.9%
Net non-operating expense	(253)	(1,913)	-86.8%	(2,218)	-88.6%
Profit (loss) before income tax (expense) benefit	19,075	21,291	-10.4%	(3,324)	NMF
Income tax (expense) benefit	(3,292)	(3,778)	-12.9%	1,327	NMF
Profit (loss) from continuing operations	15,783	17,513	-9.9%	(1,997)	NMF
Net gain from discontinued operations	-	28	-100.0%	-	-
Profit (loss)	15,783	17,541	-10.0%	(1,997)	NMF
Net loans, standalone	1,591,087	1,454,937	9.4%	1,696,325	-6.2%
Client deposits, standalone	1,274,621	1,246,995	2.2%	1,148,913	10.9%
<i>Loan yield</i>	<i>13.5%</i>	<i>14.5%</i>		<i>12.9%</i>	
<i>Cost of deposits</i>	<i>5.7%</i>	<i>8.3%</i>		<i>6.2%</i>	
<i>Cost / income ratio</i>	<i>32.0%</i>	<i>31.4%</i>		<i>32.8%</i>	

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

The 33.4% net interest income growth for Corporate Banking business was partially offset by a decline in net fee and commission and net gains from foreign currencies, translating into revenue growth of 8.3% y-o-y. Cost of credit risk declined significantly to GEL 6.9 million, down 73.9% q-o-q. As a result, the Corporate Banking segment returned to profitability this quarter after a loss in Q4 2012, to post a GEL 15.8 million profit.

Corporate Banking net loans increased by 9.4% y-o-y to GEL 1,591.1 million, but declined 6.2% q-o-q, reflecting the slow-down of the corporate activity in the post-election period as well as the one-off prepayment of a corporate loan totalling GEL 80.5 million at the end of March 2013. As a result, the Bank's corporate loan portfolio concentration improved from top 10 corporate loans accounting for 17.0% of the Bank's total loan book as of 31 December 2012 to 15.3% as of 31 March 2013, in line with the Bank's intention to focus on rapidly growing mid size corporate borrowers. Corporate Banking client deposits increased by 2.2% to GEL 1,274.6 million. Aggressive corporate deposit pricing led to the reduction of cost of corporate deposits to 5.7% in Q1 2013 from 6.2% in Q4 2012 and 8.3% in Q1 2012.

Highlights

- Increased the number of corporate clients using the Bank's payroll services from 2,603 as of 31 March 2012 to 3,528 as of 31 March 2013. As of 31 March 2013, the number of individual clients serviced through the corporate payroll programmes administered by the Bank amounted to 206,980, compared to 185,811 as of 31 March 2012.
- Since its launch in June 2012, Bank of Georgia Research has initiated research coverage of Georgian Electricity Sector, Georgian Oil and Gas Corporation, Georgian Railway, and issued notes on Georgian

State Budget and the Tourism Sector as of the date of this report. The Bank of Georgia research platform is aimed at supporting the growth of CB's fee generating business.

- Substantially increased the aggregate trade finance limits from international partner credit institutions from US\$186.9 million equivalent in Q1 2012 to US\$320.9 million in Q1 2013 diversified across different currencies (US\$, EUR, CHF). The bank has trade finance lines open with 14 partner credit institutions.

Asset and Wealth Management (AWM)

<i>GEL thousands, unless otherwise noted</i>	<u>Q1 2013</u>	<u>Q1 2012</u>	<u>Change Y-O-Y</u>	<u>Q4 2012</u>	<u>Change Q-O-Q</u>
Net interest income	2,221	2,940	-24.5%	1,701	30.6%
Net fee and commission income	130	112	16.1%	161	-19.3%
Net gain from foreign currencies	383	154	148.7%	132	190.2%
Other operating non-interest income	17	20	-15.0%	6	183.3%
Revenue	2,751	3,226	-14.7%	2,000	37.6%
Operating expenses	(978)	(887)	10.3%	(1,080)	-9.4%
Operating income before cost of credit risk	1,773	2,339	-24.2%	920	92.7%
Cost of credit risk	122	32	NMF	981	-87.6%
Net non-operating expense	(4)	(53)	-92.5%	(132)	-97.0%
Profit before income tax expense	1,891	2,318	-18.4%	1,769	6.9%
Income tax expense	(283)	(358)	-20.9%	(124)	128.2%
Profit from continuing operations	1,608	1,960	-18.0%	1,645	-2.2%
Net gain from discontinued operations	-	1	-100.0%	-	-
Profit	1,608	1,961	-18.0%	1,645	-2.2%
Net loans, standalone	25,504	43,629	-41.5%	38,644	-34.0%
Client deposits, standalone	613,787	490,134	25.2%	605,183	1.4%
<i>Cost of deposits</i>	<i>8.3%</i>	<i>9.2%</i>		<i>8.5%</i>	

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

In Q1 2013, AWM client deposits increased 25.2% y-o-y to GEL 613.8 million, despite a 90 bps decline in cost of deposits. Net interest income declined 24.5% to GEL 2.2 million predominantly as a result of change in the internal transfer pricing rates within the segments (from AWM to RB and CB). As a result, profit of the segment declined 18.0% to GEL 1.6 million.

Highlights

- The Asset and Wealth Management business currently serves over 1,400 clients from more than 60 countries. Client funds attracted by AWM have grown at a compound annual growth rate (CAGR) of 60.1% over the last four year period to GEL 613.8 million as of 31 March 2013.
- Bank of Georgia started a Certificates of Deposit (CD) Programme in December 2012 (official launch January 2013). CDs are tradable securities offering attractive yields to investors in both local and foreign currencies. As of 31 March 2013, the amount of CDs issued to AWM clients reached GEL 41.6 million and GEL 56.2 million as of the date of this report.

Synergistic Businesses

Insurance and Healthcare (Aldagi BCI)

	Q1 2013				Q1 2012				Change, Y-O-Y		
	Insurance	Healthcare	Eliminations	Total	Insurance	Healthcare	Eliminations	Total	Insurance	Healthcare	Total
<i>GEL thousands, unless otherwise noted</i>											
Gross premiums written	37,827	-	-	37,827	19,892	-	-	19,892	90.2%	-	90.2%
Net interest income (expense)	583	(2,802)	-	(2,219)	(204)	(1,052)	-	(1,256)	NMF	166.3%	76.7%
Net fee and commission income	28	-	-	28	-	-	-	-	-	-	-
Net insurance revenue, of which:	9,228	-	3,268	12,496	3,136	-	1,178	4,313	194.3%	-	189.7%
<i>Net premiums earned</i>	<i>32,642</i>	-	<i>(127)</i>	<i>32,515</i>	<i>13,012</i>	-	-	<i>13,012</i>	<i>150.9%</i>		<i>149.9%</i>
<i>Net claims incurred</i>	<i>(23,414)</i>	-	<i>3,395</i>	<i>(20,019)</i>	<i>(9,876)</i>	-	<i>1,178</i>	<i>(8,698)</i>	<i>137.1%</i>		<i>130.2%</i>
Net healthcare revenue (loss), of which:	-	7,286	(3,395)	3,891	-	5,955	(1,178)	4,778	-	22.4%	-18.5%
<i>Healthcare revenue</i>		<i>21,554</i>	<i>(8,484)</i>	<i>13,070</i>	-	<i>12,961</i>	<i>(2,701)</i>	<i>10,260</i>	-	<i>66.3%</i>	<i>27.4%</i>
<i>Cost of healthcare services</i>		<i>(14,268)</i>	<i>5,089</i>	<i>(9,179)</i>	-	<i>(7,006)</i>	<i>1,523</i>	<i>(5,483)</i>	-	<i>103.7%</i>	<i>67.4%</i>
Net loss from foreign currencies	(92)	(332)	-	(424)	(113)	(84)	-	(197)	-18.6%	NMF	115.2%
Other operating non-interest income	204	422	-	626	525	1,600	-	2,125	-61.1%	-73.6%	-70.5%
Revenue	9,951	4,574	(127)	14,398	3,344	6,419	-	9,763	197.6%	-28.7%	47.5%
Operating expenses	(4,237)	(3,274)	127	(7,384)	(2,841)	(5,141)	-	(7,982)	49.1%	-36.3%	-7.5%
Operating income before cost of credit risk	5,714	1,300	-	7,014	503	1,278	-	1,781	NMF	1.7%	NMF
Cost of credit risk	(565)	(294)	-	(859)	(45)	-	-	(45)	NMF	-	NMF
Net non-operating expenses	-	-	-	-	(71)	-	-	(71)	-100.0%	-	-100.0%
Profit before income tax (expense) benefit	5,149	1,006	-	6,155	387	1,278	-	1,665	NMF	-21.3%	NMF
Income tax (expense) benefit	(773)	(154)	-	(927)	160	(224)	-	(64)	NMF	-31.3%	NMF
Profit	4,376	852	-	5,228	547	1,054	-	1,601	NMF	-19.2%	NMF

Aldagi BCI, the Bank's wholly-owned subsidiary, provides life and non-life insurance and healthcare products and services in Georgia. A leader in the Georgian life and non-life insurance markets, with a market share of 31.8% as of 31 December 2012 based on gross insurance premium revenue, Aldagi BCI cross-sells its insurance products with the Bank's retail banking, corporate banking and asset and wealth management products. Aldagi BCI's healthcare business consists of My Family Clinic, Georgia's leading healthcare provider, operating a chain of healthcare centres in Georgia, in line with the Bank's strategy of vertically integrating its insurance and healthcare businesses.

In Q1 2013, insurance and healthcare revenue increased to GEL 14.4 million from GEL 9.8 million in Q1 2012, reflecting the growth of both the insurance and healthcare businesses through organic growth as well as acquisitions. The Bank's insurance business nearly doubled gross premiums written during the period. As a result, net insurance revenues almost tripled to GEL 9.2 million. On q-o-q basis, insurance revenue decreased 19.3% as a result of seasonality considerations characteristic of the insurance business. Operating expenses declined 7.5% y-o-y despite a 47.5% increase in revenue, resulting in total operating income before the cost of credit risk increasing almost four times.

As a result, Insurance and Healthcare segment (Aldagi BCI) posted a profit before income tax expense of GEL 6.2 million up from GEL 1.7 million the year before.

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

Insurance standalone income statement

<i>GEL thousands, unless otherwise noted</i>	<u>Q1 2013</u>	<u>Q1 2012</u>	<u>Change Y-O-Y</u>	<u>Q4 2012</u>	<u>Change Q-O-Q</u>
Gross premiums written	37,827	19,892	90.2%	22,753	66.3%
Net interest income	583	(204)	NMF	694	-16.0%
Net fee and commission income (expense)	28	-	NMF	(137)	NMF
Net insurance revenue, of which:	9,228	3,136	194.3%	10,909	-15.4%
<i>Net premiums earned</i>	<i>32,642</i>	<i>13,012</i>	<i>150.9%</i>	<i>33,257</i>	<i>-1.8%</i>
<i>Net claims incurred</i>	<i>(23,414)</i>	<i>(9,876)</i>	<i>137.1%</i>	<i>(22,348)</i>	<i>4.8%</i>
Net loss from foreign currencies	(92)	(113)	-18.6%	(112)	-17.9%
Other operating non-interest income	204	525	-61.1%	974	-79.1%
Revenue	9,951	3,344	197.6%	12,328	-19.3%
Operating expenses	(4,237)	(2,841)	49.1%	(5,200)	-18.5%
Operating income before cost of credit risk	5,714	503	NMF	7,128	-19.8%
Cost of credit risk	(569)	(45)	NMF	(406)	39.2%
Net non-operating income (expense) income	-	(71)	-100%	1	-100.0%
Profit before income tax (expense) benefit	5,149	387	NMF	6,723	-23.4%
Income tax (expense) benefit	(773)	160	NMF	(981)	-21.2%
Profit	4,376	547	NMF	5,742	-23.8%

Healthcare pro-forma¹⁸ standalone income statement

<i>GEL thousands, unless otherwise noted</i>	<u>Q1 2013</u>	<u>Q1 2012</u>	<u>Change Y-O-Y</u>	<u>Q4 2012</u>	<u>Change Q-O-Q</u>
Net interest expense	(2,802)	(1,052)	166.3%	(2,126)	31.8%
Net healthcare revenue, of which:	8,781	5,955	47.5%	8,776	0.1%
<i>Healthcare revenue</i>	<i>21,554</i>	<i>12,961</i>	<i>66.3%</i>	<i>20,078</i>	<i>7.4%</i>
<i>Cost of healthcare services</i>	<i>(12,773)</i>	<i>(7,006)</i>	<i>82.3%</i>	<i>(11,302)</i>	<i>13.0%</i>
Net loss from foreign currencies	(332)	(84)	NMF	(112)	196.4%
Other operating non-interest income	422	1,600	-73.6%	146	189.0%
Revenue	6,069	6,419	-5.5%	6,684	-9.2%
Operating expenses	(4,769)	(5,141)	-7.2%	(5,619)	-15.1%
Operating income before cost of credit risk	1,300	1,278	1.7%	1,065	22.1%
Cost of credit risk	(294)	-	-	(802)	-63.3%
Net non-operating income	-	-	-	440	-100.0%
Profit (loss) before income tax (expense) benefit	1,006	1,278	-21.3%	703	43.1%
Income tax (expense) benefit	(154)	(224)	-31.3%	184	NMF
Profit	852	1,054	-19.2	887	-3.9%

¹⁸ In Q1 2013, compared to previous quarters, additional direct operating expenses of the Healthcare business (such as, direct depreciation and other administrative expenses) were netted off against healthcare revenues. No similar reclassifications were applied to previous quarters. In the pro-forma version of the healthcare income statement, Q1 2013 has been normalised for these additional net-offs, by reversing them and making Q1 2013 more comparable to Q4 2012 and Q1 2012.

Highlights

- As a result of organic growth and acquisitions in 2012, Aldagi BCI increased market share to 31.8% as of 31 December 2012 from 20.2% a year ago by gross insurance premium revenue as a result of acquisitions in 2012.
- Nearly tripled number of insurance clients to 639,790 from 230,711 a year ago.
- As of 31 March 2013, Aldagi BCI operated hospitals and clinics with a total of 1,231 beds.

Affordable Housing

<i>GEL thousands, unless otherwise noted</i>	Q1 2013			Q1 2012			Change, Y-O-Y		
	m2	Mortgages	Total	m2	Mortgage	Total	m2	Mortgages	Total
Net interest income (expense)	367	187	554	(552)	32	(520)	NMF	NMF	NMF
Net fee and commission expense	(4)	-	(4)	-	-	-	-	-	-
Net loss from foreign currencies	(18)	-	(18)	(57)	-	(57)	-68.4%	-	-68.4%
Other operating non-interest income	418	-	418	555	-	555	-24.7%	-	-24.7%
Revenue	763	187	950	(54)	32	(22)	NMF	NMF	NMF
Operating expense	(654)	-	(654)	(800)	-	(800)	-18.3%	-	-18.3%
Operating income (loss) before cost of credit risk	109	187	296	(854)	32	(822)	NMF	NMF	NMF
Cost of credit risk	-	244	244	-	(32)	(32)	-	NMF	NMF
Net non-operating expense	(268)	-	(268)	-	-	-	-	-	-
Loss (profit) before income tax benefit	(159)	431	272	(854)	-	(854)	-81.4%	-	NMF
Income tax benefit	30	-	30	128	-	128	-76.6%	-	-76.6%
Loss (profit)	(129)	431	302	(726)	-	(726)	-82.2%	-	NMF

The Affordable Housing business consists of the Bank's wholly-owned subsidiary M2 RE, which holds investment properties repossessed by the Bank from defaulted borrowers. With the aim to improve liquidity of these repossessed real estate assets and stimulate the Bank's mortgage lending business capitalising on the market opportunity in the affordable housing segment in Georgia, the Bank develops and leases such real estate assets through M2 RE. M2 RE outsources the construction and architecture works and focuses on project management and sales of apartments and mortgages through its well-established branch network and sales force, thus representing a synergistic business for the Bank's mortgage business.

Highlights

- Completed and sold all apartments of the pilot project of 123 apartment building with a total buildable area of 15,015 square meters; total sales from the pilot project amounted to US\$9.3 million. IRR from the project amounted to 33.6%.
- Total mortgage loans extended under pilot project of the Affordable Housing amounted to GEL equivalent of US\$4.4 million. Number of mortgages sold 76.
- Construction of a second project of 522 apartment building with a total buildable area of 63,247 square meters in progress. 261 already pre-sold as of 31 March 2013, of which 34 units were sold in Q1 2013, bringing the total to 50% of pre-sold apartments. During April 2013, an additional 21 apartments were pre-sold. The total sales from this project amounted to US\$21.3 million as of 31 March 2013. Number of mortgages sold 129.
- Total mortgage loans extended under the second Affordable Housing project amounted to US\$7.8 million.
- Cash balance (comprising cash and cash equivalents and amounts due from credit institutions) of M2 Real Estate as of 31 March 2013 amounted to GEL 22.5 million.

Non-Core Businesses

The Bank's non-core businesses that accounted for 3.5% of total assets and 5.8% of total revenue in Q1 2013, comprise BNB, our Belarusian banking operation, and Liberty Consumer, a Georgia focused investment company in which the Bank holds a 67% stake. In order for the Bank to focus on its strategic businesses, the Bank has announced its intention to exit from its non-core operations. In line with its intention of exiting from its non-core operations, the Bank continued to sell and/or liquidate non-performing assets held by Liberty Consumer. As of 31 March 2013, 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

<i>GEL thousands, unless otherwise noted</i>	<u>Q1 2013</u>	<u>Q1 2012</u>	<u>Change Y-O-Y</u>	<u>Q4 2012</u>	<u>Change Q-O-Q</u>
Net interest income	4,102	2,295	78.7%	3,485	17.7%
Net fee and commission income	1,161	637	82.3%	1,208	-3.9%
Net gain from foreign currencies ¹⁹	551	3,197	-82.8%	755	-27.0%
Other operating non-interest income	25	33	-24.2%	(47)	NMF
Revenue	5,839	6,162	-5.2%	5,401	8.1%
Operating expenses	(3,126)	(2,277)	37.3%	(2,897)	7.9%
Operating income before cost of credit risk	2,713	3,885	-30.2%	2,504	8.3%
Cost of credit risk	(439)	(1,071)	-59.0%	80	NMF
Net non-operating expense	(580)	(114)	NMF	(139)	NMF
Profit before income tax expense	1,694	2,700	-37.3%	2,445	-30.7%
Income tax expense	(612)	(658)	-7.0%	(637)	-3.9%
Profit	1,082	2,042	-47.0%	1,808	-40.2%

¹⁹Includes GEL 2.9 million one-off foreign currency gain in Q1 2012

Through BNB, the Bank provides retail banking and corporate banking services in Belarus. BNB reported solid net interest income and net fee and commission income, up 78.7% and 82.3% respectively. However, an 82.8% y-o-y decline in net gain from foreign currencies reflecting the one-off significant foreign currency gain in Q1 2012, translated into a 5.2% decrease in revenue. Net loan book doubled y-o-y to GEL 122.6 million, while client funds increased 2.5 times y-o-y. As of 31 March 2013, BNB's total assets stood at GEL 198.2 million, net loan book at GEL 122.6 million, client deposits at GEL 100.1 million and equity at GEL 47.8 million, representing 3.7%, 4.2%, 4.1% and 3.6% of the Bank's total assets, loan book, client deposits and equity, respectively.

Highlights

- As of 31 March 2013, BNB was the 18th bank in Belarus by assets (31 March 2012: 23rd) and 15th by profit (31 March 2012: 14th).
- Increased revenues from trade finance operations by 76.2% y-o-y to GEL 0.2 million
- Added three new currency exchange offices and two ATMs, bringing the total to 7 and 16, respectively.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

<i>GEL thousands, unless otherwise noted</i>	Q1 2013 <i>Unaudited</i>	Q1 2012 <i>Audited</i>	Change Y-O-Y	Q4 2012 <i>Unaudited</i>	Change Q-O-Q
Loans to customers	129,458	118,425	9.3%	134,451	-3.7%
Investment securities	8,007	9,824	-18.5%	8,018	-0.1%
Amounts due from credit institutions	2,615	4,212	-37.9%	2,141	22.1%
Finance lease receivables	1,500	2,012	-25.4%	2,327	-35.5%
Interest income	141,580	134,473	5.3%	146,937	-3.6%
Amounts due to customers	(43,918)	(53,834)	-18.4%	(46,284)	-5.1%
Amounts due to credit institutions	(24,990)	(18,709)	33.6%	(23,943)	4.4%
Interest expense	(68,908)	(72,543)	-5.0%	(70,227)	-1.9%
Net interest income before interest rate swaps	72,672	61,930	17.3%	76,710	-5.3%
Net loss from interest rate swaps	(76)	(768)	-90.1%	(171)	-55.6%
Net interest income	72,596	61,162	18.7%	76,539	-5.2%
Fee and commission income	26,562	24,122	10.1%	28,028	-5.2%
Fee and commission expense	(6,066)	(4,406)	37.7%	(6,906)	-12.2%
Net fee and commission income	20,496	19,716	4.0%	21,122	-3.0%
Net insurance premiums earned	31,744	12,487	154.2%	32,956	-3.7%
Net insurance claims incurred	(20,018)	(7,813)	156.2%	(20,698)	-3.3%
Net insurance revenue	11,726	4,674	150.9%	12,258	-4.3%
Healthcare revenue	13,070	10,260	27.4%	15,751	-17.0%
Cost of healthcare services	(9,179)	(5,483)	67.4%	(8,626)	6.4%
Net healthcare revenue	3,891	4,777	-18.5%	7,125	-45.4%
Net gain from trading and investment securities	1,284	796	61.3%	73	NMF
Net gain from foreign currencies	9,452	14,358	-34.2%	10,878	-13.1%
Other operating income	3,531	4,361	-19.0%	293	NMF
Other operating non-interest income	14,267	19,515	-26.9%	11,244	26.9%
Revenue	122,976	109,844	12.0%	128,288	-4.1%
Salaries and other employee benefits	(32,501)	(25,833)	25.8%	(32,383)	0.4%
General and administrative expenses	(14,057)	(15,764)	-10.8%	(15,278)	-8.0%
Depreciation and amortization expenses	(6,593)	(6,764)	-2.5%	(7,303)	-9.7%
Other operating expenses	(729)	(1,957)	-62.7%	998	NMF
Operating expenses	(53,880)	(50,318)	7.1%	(53,966)	-0.2%
Operating income before cost of credit risk	69,096	59,526	16.1%	74,322	-7.0%
Cost of credit risk	(17,278)	(7,380)	134.1%	(16,124)	7.2%
Net operating income	51,818	52,146	-0.6%	58,198	-11.0%
Net non-operating expense	(1,365)	(4,400)	-69.0%	(4,189)	-67.4%
Profit before Income tax expense	50,453	47,746	5.7%	54,009	-6.6%
Income tax expense	(8,456)	(8,042)	5.1%	(7,134)	18.5%
Profit from continuing operations	41,997	39,704	5.8%	46,875	-10.4%
Net gain from discontinued operations	-	54	-100.0%	-	-
Profit	41,997	39,758	5.6%	46,875	-10.4%
<i>Attributable to:</i>					
– shareholders of the Group	40,597	39,143	3.7%	45,228	-10.2%
– non-controlling interests	1,400	615	127.6%	1,647	-15.0%
Earning per share (basic)	1.19	1.21	-1.7%	1.33	-10.5%
Earning per share (diluted)	1.19	1.17	1.7%	1.33	-10.5%

STATEMENT OF FINANCIAL POSITION

<i>GEL thousands, unless otherwise noted</i>	Mar-13 <i>Unaudited</i>	Mar-12 <i>Audited</i>	Change Y-O-Y	Dec-12 <i>Audited</i>	Change Q-O-Q
Cash and cash equivalents	696,590	381,386	82.6%	762,827	-8.7%
Amounts due from credit institutions	349,196	287,915	21.3%	396,559	-11.9%
Investment securities	511,450	357,517	43.1%	463,960	10.2%
Loans to customers and finance lease receivables	2,954,724	2,713,752	8.9%	3,092,320	-4.4%
Investments in associates	2,441	3,032	-19.5%	2,441	0.0%
Investment property	163,458	125,104	30.7%	160,353	1.9%
Property and equipment	439,941	339,078	29.7%	430,877	2.1%
Goodwill	45,657	45,831	-0.4%	45,657	0.0%
Intangible assets	22,916	20,658	10.9%	23,078	-0.7%
Income tax assets	17,889	22,564	-20.7%	15,296	17.0%
Prepayments	32,219	33,819	-4.7%	41,147	-21.7%
Other assets	297,377	159,501	86.4%	221,080	34.5%
Total assets	5,533,858	4,490,157	23.2%	5,655,595	-2.2%
Amounts due to customers, of which:	2,817,677	2,625,228	7.3%	2,693,025	4.6%
<i>Client deposits</i>	<i>2,807,064</i>	<i>2,442,007</i>	<i>14.9%</i>	<i>2,622,911</i>	<i>7.0%</i>
<i>Promissory notes</i>	<i>10,613</i>	<i>183,221</i>	<i>-94.2%</i>	<i>70,114</i>	<i>-84.9%</i>
Amounts due to credit institutions	1,355,027	753,821	79.8%	1,657,162	-18.2%
Income tax liabilities	55,447	45,682	21.4%	60,002	-7.6%
Provisions	991	429	131.0%	683	45.1%
Other liabilities	194,901	116,461	67.4%	185,211	5.2%
Total liabilities	4,424,043	3,541,621	24.9%	4,596,083	-3.7%
Share capital	905	954	-5.1%	957	-5.4%
Additional paid-in capital	19,765	579,136	-96.6%	14,767	33.8%
Treasury shares	(47)	(72)	-34.7%	(69)	-31.9%
Other reserves	14,421	18,355	-21.4%	14,097	2.3%
Retained earnings	1,022,301	290,475	NMF	981,322	4.2%
Total equity attributable to shareholders of the Group	1,057,345	888,848	19.0%	1,011,074	4.6%
Non-controlling interests	52,470	59,688	-12.1%	48,438	8.3%
Total equity	1,109,815	948,536	17.0%	1,059,512	4.7%
Total liabilities and equity	5,533,858	4,490,157	23.2%	5,655,595	-2.2%
Book value per share	31.04	26.78	15.9%	30.33	2.3%

CONSOLIDATED INCOME STATEMENT

<i>Thousands, unless otherwise noted</i>	USD					GBP				
	Q1 2013 Quarter <i>Unaudited</i>	Q1 2012 Quarter <i>Unaudited</i>	Change Y-O-Y %	Q4 2012 Quarter <i>Unaudited</i>	Change Q-O-Q %	Q1 2013 Quarter <i>Unaudited</i>	Q1 2012 Quarter <i>Unaudited</i>	Change Y-O-Y %	Q4 2012 Quarter <i>Unaudited</i>	Change Q-O-Q %
Loans to customers	78,095	71,340	9.5%	81,156	-3.8%	51,395	44,558	15.3%	50,445	1.9%
Investment securities	4,830	5,918	-18.4%	4,840	-0.2%	3,179	3,696	-14.0%	3,008	5.7%
Amounts due from credit institutions	1,577	2,537	-37.8%	1,292	22.1%	1,038	1,585	-34.5%	803	29.3%
Finance lease receivables	905	1,213	-25.4%	1,405	-35.6%	595	757	-21.4%	874	-31.9%
Interest income	85,407	81,008	5.4%	88,693	-3.7%	56,207	50,596	11.1%	55,130	2.0%
Amounts due to customers	(26,493)	(32,430)	-18.3%	(27,937)	-5.2%	(17,435)	(20,255)	-13.9%	(17,365)	0.4%
Amounts due to credit institutions	(15,075)	(11,270)	33.8%	(14,452)	4.3%	(9,921)	(7,039)	40.9%	(8,983)	10.4%
Interest expense	(41,568)	(43,701)	-4.9%	(42,390)	-1.9%	(27,356)	(27,294)	0.2%	(26,349)	3.8%
Net interest income before interest rate swaps	43,839	37,307	17.5%	46,303	-5.3%	28,851	23,301	23.8%	28,781	0.2%
Net loss from interest rate swaps	(46)	(462)	-90.0%	(103)	-55.3%	(30)	(289)	-89.6%	(64)	-53.1%
Net interest income	43,793	36,845	18.9%	46,200	-5.2%	28,821	23,012	25.2%	28,717	0.4%
Fee and commission income	16,023	14,531	10.3%	16,918	-5.3%	10,545	9,076	16.2%	10,516	0.3%
Fee and commission expense	(3,659)	(2,654)	37.9%	(4,169)	-12.2%	(2,408)	(1,658)	45.2%	(2,591)	-7.1%
Net fee and commission income	12,364	11,877	4.1%	12,749	-3.0%	8,137	7,418	9.7%	7,925	2.7%
Net insurance premiums earned	19,149	7,522	154.6%	19,893	-3.7%	12,602	4,698	168.2%	12,365	1.9%
Net insurance claims incurred	(12,075)	(4,706)	156.6%	(12,494)	-3.4%	(7,947)	(2,939)	170.4%	(7,766)	2.3%
Net insurance revenue	7,074	2,816	151.2%	7,399	-4.4%	4,655	1,759	164.6%	4,599	1.2%
Healthcare revenue	7,884	6,181	27.6%	9,507	-17.1%	5,189	3,860	34.4%	5,910	-12.2%
Cost of healthcare services	(5,537)	(3,303)	67.6%	(5,206)	6.4%	(3,644)	(2,063)	76.6%	(3,237)	12.6%
Net healthcare revenue	2,347	2,878	-18.5%	4,301	-45.4%	1,545	1,797	-14.0%	2,673	-42.2%
Net gain from trading and investment securities	775	480	61.5%	44	NMF	510	299	70.6%	27	NMF
Net gain from foreign currencies	5,702	8,649	-34.1%	6,566	-13.2%	3,752	5,402	-30.5%	4,081	-8.1%
Other operating income	2,130	2,626	-18.9%	177	NMF	1,401	1,642	-14.7%	111	NMF
Other operating non-interest income	8,607	11,755	-26.8%	6,787	26.8%	5,663	7,343	-22.9%	4,219	34.2%
Revenue	74,185	66,171	12.1%	77,436	-4.2%	48,821	41,329	18.1%	48,133	1.4%
Salaries and other employee benefits	(19,606)	(15,562)	26.0%	(19,547)	0.3%	(12,903)	(9,720)	32.7%	(12,150)	6.2%
General and administrative expenses	(8,480)	(9,496)	-10.7%	(9,222)	-8.0%	(5,581)	(5,931)	-5.9%	(5,732)	-2.6%
Depreciation and amortization expenses	(3,977)	(4,075)	-2.4%	(4,408)	-9.8%	(2,617)	(2,545)	2.8%	(2,740)	-4.5%
Other operating expenses	(440)	(1,179)	-62.7%	602	NMF	(289)	(736)	-60.7%	374	NMF
Operating expenses	(32,503)	(30,312)	7.2%	(32,575)	-0.2%	(21,390)	(18,932)	13.0%	(20,248)	5.6%
Operating income before cost of credit risk	41,682	35,859	16.2%	44,861	-7.1%	27,431	22,397	22.5%	27,885	-1.6%
Cost of credit risk	(10,423)	(4,446)	134.4%	(9,732)	7.1%	(6,859)	(2,777)	147.0%	(6,050)	13.4%
Net operating income	31,259	31,413	-0.5%	35,129	-11.0%	20,572	19,620	4.9%	21,835	-5.8%
Net non-operating expense	(823)	(2,650)	-68.9%	(2,529)	-67.5%	(542)	(1,656)	-67.3%	(1,571)	-65.5%
Profit before Income tax expense	30,436	28,763	5.8%	32,600	-6.6%	20,030	17,964	11.5%	20,264	-1.2%
Income tax expense	(5,102)	(4,845)	5.3%	(4,306)	18.5%	(3,357)	(3,025)	11.0%	(2,677)	25.4%
Profit from continuing operations	25,334	23,918	5.9%	28,294	-10.5%	16,673	14,939	11.6%	17,587	-5.2%
Net gain from discontinued operations	-	33	-100.0%	-	-	-	20	-100.0%	-	-
Profit	25,334	23,951	5.8%	28,294	-10.5%	16,673	14,959	11.5%	17,587	-5.2%
Attributable to:										
– shareholders of the Group	24,489	23,581	3.9%	27,300	-10.3%	16,117	14,728	9.4%	16,969	-5.0%
– non-controlling interests	845	370	128.4%	994	-15.0%	556	231	140.7%	618	-10.0%
Earnings per share (basic)	0.72	0.73	-1.4%	0.80	-10.0%	0.47	0.46	2.2%	0.50	-6.0%
Earnings per share (diluted)	0.72	0.70	2.9%	0.80	-10.0%	0.47	0.44	6.8%	0.50	-6.0%

STATEMENT OF FINANCIAL POSITION

Thousands, unless otherwise noted	USD					GBP				
	Mar-13	Mar-12	Change	Dec-12	Change	Mar-13	Mar-12	Change	Dec-12	Change
	Unaudited	Unaudited	Y-O-Y	Unaudited	Q-O-Q	Unaudited	Unaudited	Y-O-Y	Unaudited	Q-O-Q
Cash and cash equivalents	420,215	229,751	82.9%	460,450	-8.7%	276,545	143,497	92.7%	286,207	-3.4%
Amounts due from credit institutions	210,651	173,443	21.5%	239,367	-12.0%	138,630	108,328	28.0%	148,786	-6.8%
Investment securities	308,530	215,372	43.3%	280,051	10.2%	203,045	134,516	50.9%	174,074	16.6%
Loans to customers and finance lease receivables	1,782,424	1,634,790	9.0%	1,866,554	-4.5%	1,173,022	1,021,052	14.9%	1,160,215	1.1%
Investments in associates	1,473	1,827	-19.4%	1,473	0.0%	969	1,141	-15.1%	916	5.8%
Investment property	98,605	75,364	30.8%	96,791	1.9%	64,893	47,071	37.9%	60,163	7.9%
Property and equipment	265,392	204,264	29.9%	260,081	2.0%	174,656	127,578	36.9%	161,662	8.0%
Goodwill	27,542	27,609	-0.2%	27,559	-0.1%	18,126	17,244	5.1%	17,130	5.8%
Intangible assets	13,824	12,445	11.1%	13,930	-0.8%	9,098	7,773	17.0%	8,659	5.1%
Income tax assets	10,791	13,593	-20.6%	9,233	16.9%	7,102	8,490	-16.3%	5,739	23.7%
Prepayments	19,436	20,373	-4.6%	24,837	-21.7%	12,791	12,724	0.5%	15,438	-17.1%
Other assets	179,392	96,083	86.7%	133,445	34.4%	118,057	60,012	96.7%	82,947	42.3%
Total assets	3,338,275	2,704,914	23.4%	3,413,771	-2.2%	2,196,934	1,689,426	30.0%	2,121,936	3.5%
Amounts due to customers, of which:	1,699,751	1,581,463	7.5%	1,625,535	4.6%	1,118,614	987,745	13.2%	1,010,402	10.7%
<i>Client deposits</i>	<i>1,693,349</i>	<i>1,471,089</i>	<i>15.1%</i>	<i>1,583,214</i>	<i>7.0%</i>	<i>1,114,401</i>	<i>918,808</i>	<i>21.3%</i>	<i>984,096</i>	<i>13.2%</i>
<i>Promissory notes</i>	<i>6,402</i>	<i>110,374</i>	<i>-94.2%</i>	<i>42,321</i>	<i>-84.9%</i>	<i>4,213</i>	<i>68,937</i>	<i>-93.9%</i>	<i>26,306</i>	<i>-84.0%</i>
Amounts due to credit institutions	817,414	454,109	80.0%	1,000,279	-18.3%	537,944	283,626	89.7%	621,754	-13.5%
Income tax liabilities	33,448	27,519	21.5%	36,218	-7.6%	22,012	17,188	28.1%	22,512	-2.2%
Provisions	598	258	131.8%	412	45.1%	393	161	144.1%	256	53.5%
Other liabilities	117,573	70,158	67.6%	111,796	5.2%	77,376	43,819	76.6%	69,491	11.3%
Total liabilities	2,668,784	2,133,507	25.1%	2,774,240	-3.8%	1,756,339	1,332,539	31.8%	1,724,415	1.9%
Share capital	546	575	-5.0%	578	-5.5%	359	359	0.0%	359	0.0%
Additional paid-in capital	11,923	348,877	-96.6%	8,914	33.8%	7,847	217,901	-96.4%	5,540	41.6%
Treasury shares	(28)	(43)	-34.9%	(42)	-33.3%	(19)	(27)	-29.6%	(26)	-26.9%
Other reserves	8,700	11,057	-21.3%	8,509	2.2%	5,726	6,905	-17.1%	5,290	8.2%
Retained earnings	616,698	174,985	NMF	592,335	4.1%	405,852	109,292	NMF	368,184	10.2%
Total equity attributable to shareholders of the Group	637,839	535,451	19.1%	610,294	4.5%	419,765	334,430	25.5%	379,347	10.7%
Non-controlling interests	31,652	35,956	-12.0%	29,237	8.3%	20,830	22,457	-7.2%	18,174	14.6%
Total equity	669,491	571,407	17.2%	639,531	4.7%	440,595	356,887	23.5%	397,521	10.8%
Total liabilities and equity	3,338,275	2,704,914	23.4%	3,413,771	-2.2%	2,196,934	1,689,426	30.0%	2,121,936	3.5%
Book value per share	18.72	16.13	16.1%	18.31	2.2%	12.32	10.08	22.2%	11.38	8.3%

ALDAGI BCI INCOME STATEMENT

<i>GEL thousands, unless otherwise noted</i>	Q1 - 2013	Q1 - 2012	Change	Q4 - 2012	Change
	<i>Unaudited</i>	<i>Unaudited</i>	Y-O-Y	<i>Unaudited</i>	Q-O-Q
Gross premiums written (GPW)	37,827	19,892	90.2%	22,753	66.3%
Gross premiums earned	36,211	16,435	120.3%	37,219	-2.7%
Net insurance premiums earned	32,514	12,983	150.4%	33,257	-2.2%
Net insurance claims incurred	(20,018)	(8,699)	130.1%	(20,697)	-3.3%
Net insurance revenue	12,496	4,284	191.7%	12,560	-0.5%
Healthcare revenue	13,070	10,260	27.4%	15,751	-17.0%
Cost of healthcare services	(9,179)	(5,483)	67.4%	(8,626)	6.4%
Net healthcare revenue	3,891	4,777	-18.5%	7,125	-45.4%
Net interest income (expense) and other	(1,989)	2,302	NMF	(1,098)	81.1%
Revenue	14,398	11,363	26.7%	18,587	-22.5%
Operating expenses	(7,384)	(7,982)	-7.5%	(10,609)	-30.4%
Operating income before cost of credit risk	7,014	3,381	107.5%	7,978	-12.1%
Cost of credit risk	(859)	(45)	NMF	(1,208)	-28.9%
Net non-operating income (expense)	-	(71)	-100.0%	440	-100.0%
Profit before Income tax expense	6,155	3,265	88.5%	7,210	-14.6%
Income tax expense	(927)	(557)	66.4%	(796)	16.5%
Profit	5,228	2,708	93.1%	6,414	-18.5%

RATIOS

Key Ratios	Q1 – 2013	Q1 – 2012	Q4 – 2012
Profitability			
ROAA, Annualised ¹	3.1%	3.5%	3.4%
ROAE, Annualised ²	15.9%	19.0%	18.2%
Net Interest Margin, Annualised ³	7.6%	7.3%	7.8%
Loan Yield, Annualised ⁴	16.9%	17.6%	17.1%
Cost of Funds, Annualised ⁵	6.7%	8.3%	6.6%
Cost of Client Deposits, Annualised	6.4%	8.1%	6.6%
Cost of Amounts Due to Credit Institutions, Annualised	7.1%	9.0%	6.3%
Operating Leverage, Y-O-Y ⁶	4.9%	20.2%	10.9%
Efficiency			
Cost / Income ⁷	43.8%	45.8%	42.1%
Liquidity			
NBG Liquidity Ratio ⁸	44.1%	36.0%	41.1%
Liquid Assets To Total Liabilities ⁹	35.2%	29.0%	35.3%
Net Loans To Customer Funds	104.9%	103.4%	114.8%
Net Loans To Customer Funds + DFIs	85.2%	85.7%	91.9%
Net Loans To Core Funding ¹⁰	76.9%	90.0%	86.1%
Leverage (Times) ¹¹	4.0	3.7	4.3
Asset Quality:			
NPLs (in GEL)	131,631	94,549	126,337
NPLs To Gross Loans To Clients	4.3%	3.3%	3.9%
NPL Coverage Ratio ¹²	86.5%	126.6%	87.5%
NPL Coverage Ratio, excluding discounted value of collateral	111.1%	164.7%	112.7%
Cost of Risk, Annualised ¹³	1.4%	1.0%	1.8%
Capital Adequacy:			
BIS Tier I Capital Adequacy Ratio, Consolidated ¹⁴	23.2%	23.2%	22.0%
BIS Total Capital Adequacy Ratio, Consolidated ¹⁵	28.2%	29.7%	27.0%
NBG Tier I Capital Adequacy Ratio ¹⁶	16.8%	15.2%	13.8%
NBG Total Capital Adequacy Ratio ¹⁷	17.1%	18.2%	16.2%
Per Share Values:			
Basic EPS (GEL)¹⁸	1.19	1.21	1.33
Diluted EPS (GEL)	1.19	1.17	1.33
Book Value Per Share (GEL)¹⁹	31.04	26.78	30.33
Ordinary Shares Outstanding - Weighted Average, Basic ²⁰	34,061,344	32,309,513	33,940,021
Ordinary Shares Outstanding - Weighted Average, Diluted ²¹	34,061,344	34,426,605	33,940,021
Ordinary Shares Outstanding - Period End, Basic ²²	35,909,383	35,909,383	35,909,383
Ordinary Shares Outstanding - Period End, Basic, Net of Treasury Shares ²³	34,061,344	33,184,801	33,332,636
Treasury Shares Outstanding - Period End	(1,848,039)	(2,724,582)	(2,576,747)
Selected Operating Data:			
Full Time Employees, Group, Of Which:	11,515	7,393	11,095
- Full Time Employees, BOG Stand-Alone	3,750	3,401	3,734
- Full Time Employees, Aldagi BCI Insurance	625	317	515
- Full Time Employees, Aldagi BCI Healthcare	6,013	2,664	5,749
- Full Time Employees, BNB	332	274	323
- Full Time Employees, Other	795	737	774
Total Assets Per FTE, BOG Stand-Alone (in GEL thousands)	1,476	1,320	1,515
Number Of Active Branches, Of Which:	194	164	194
- Flagship Branches	34	34	34
- Standard Branches	98	94	97
- Express Branches (including Metro)	62	36	63
Number Of ATMs	479	431	478
Number of Express Pay Terminals	759	104	221
Number Of Cards Outstanding, Of Which:	838,610	703,959	825,500
- Debit cards	727,019	568,209	718,239
- Credit cards	111,591	135,750	107,261
Number Of POS Terminals	3,899	2,940	3,725

	Q1 – 2013	Q1 - 2012	Q4 - 2012
Profitability Ratios:			
ROE, Annualised,	15.6%	17.7%	17.8%
Interest Income / Average Int. Earning Assets, Annualised ²⁴	14.8%	16.1%	15.0%
Net F&C Inc. To Av. Int. Earn. Ass., Annualised	1.9%	2.1%	1.9%
Net Fee And Commission Income To Revenue	16.7%	17.9%	16.5%
Operating Leverage, Q-O-Q	-4.0%	1.7%	5.1%
Revenue to Total Assets, Annualised	9.0%	9.8%	9.0%
Recurring Earning Power, Annualised ²⁵	5.1%	5.2%	5.3%
Profit To Revenue	34.2%	36.2%	36.5%
Efficiency Ratios:			
Operating Expenses to Av. Total Ass., Annualised	3.9%	4.4%	3.9%
Cost to Average Total Assets, Annualised	4.1%	4.8%	4.2%
Personnel Cost to Revenue	26.4%	23.5%	25.2%
Personnel Cost to Operating Cost	60.3%	51.3%	60.0%
Personnel Cost to Average Total Assets, Annualised	2.4%	2.3%	2.3%
Liquidity Ratios:			
Liquid Assets To Total Assets	28.2%	22.9%	28.7%
Net Loans to Total Assets	53.4%	60.4%	54.7%
Average Net Loans to Average Total Assets	54.8%	57.2%	55.3%
Interest Earning Assets to Total Assets	77.6%	80.3%	77.9%
Average Interest Earning Assets/Average Total Assets	78.2%	80.6%	77.7%
Net Loans to Client Deposits	105.3%	111.1%	117.9%
Average Net Loans to Av. Client Deposits	111.5%	104.3%	116.0%
Net Loans to Total Deposits	99.8%	107.5%	101.2%
Net Loans to (Total Deposits + Equity)	72.6%	78.1%	75.2%
Net Loans to Total Liabilities	66.8%	76.6%	67.3%
Total Deposits to Total Liabilities	66.9%	71.3%	66.5%
Client Deposits to Total Deposits	94.8%	96.8%	85.9%
Client Deposits to Total Liabilities	63.5%	69.0%	57.1%
Total Deposits to Total Assets	53.5%	56.2%	54.0%
Client Deposits to Total Assets	50.7%	54.4%	46.4%
Client Deposits to Total Equity (Times)	2.5	2.6	2.5
Total Equity to Net Loans	37.6%	35.0%	34.3%
Asset Quality:			
Reserve For Loan Losses to Gross Loans to Clients ²⁶	3.7%	4.2%	3.5%
% of Loans to Clients collateralised	87.8%	85.6%	87.1%
Equity to Average Net Loans to Clients	37.6%	35.0%	34.3%

Key Ratios Aldagi BCI

	Q1 - 2013	Q1 - 2012	Q4 - 2012
ROAA, Annualised	6.4%	6.3%	7.6%
ROAE, Annualised	23.8%	30.4%	32.4%
Loss Ratio ²⁷	68.8%	66.1%	64.6%
Combined Ratio ²⁸	82.0%	84.4%	79.6%

NOTES TO RATIOS

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

FORWARD LOOKING STATEMENTS

This document contains statements that constitute “forward-looking statements”, including , but not limited to, statements concerning expectations, projections , objectives, targets, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to financial position and future operations and development.

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

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

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