Bank of Georgia Holdings PLC announces Q3 2014 and nine months ended 30 September 2014 results

Bank of Georgia Holdings PLC (LSE: BGEO LN), the holding company of Georgia's leading bank JSC Bank of Georgia (the "Bank") and its subsidiaries (the "Group"), announced today the Group's 9M 2014 and Q3 2014 consolidated results reporting a record nine month profit for 2014 of GEL 174.3 million (US$99.5 million/GBP 61.3 million) and record earnings per share of GEL 4.89 (US$2.79 per share/GBP 1.72 per share). The Group also reported Q3 2014 profit of GEL 62.3 million (US$35.6 million/GBP 21.9 million), or GEL 1.74 per share (US$0.99 per share/GBP 0.61 per share). Unless otherwise mentioned, comparisons are with the first nine months of 2013. The results are based on IFRS, are unaudited and derived from management accounts.

- **Strong profit momentum maintained**
  - Net Interest Margin (NIM) of 7.4%, compared to 7.7% in 9M 2013
    - Q3 2014 NIM of 7.4%, compared to 7.7% in Q3 2013 and 7.3% in Q2 2014
  - Revenue increased by 9.0% y-o-y to GEL 436.9 million in 9M 2014
    - Q3 2014 revenue of GEL 155.4 million, up 12.4% y-o-y and 7.8% q-o-q
  - Cost to Income ratio stood at 43.3% in 9M 2014 compared to 41.0% in 9M 2013
    - Q3 2014 Cost to Income ratio stood at 42.5% compared to 39.7% in Q3 2013 and 44.6% in Q2 2014
    - Positive quarterly operating leverage at 5.1 ppts in Q3 2014
  - Profit for 9M 2014 increased to GEL 174.3 million, up 13.4% y-o-y
    - Profit increased to GEL 62.3 million in Q3 2014, up 6.3% y-o-y and up 6.8% q-o-q
  - Earnings per share (EPS) increased by 12.4% to GEL 4.89 in 9M 2014 compared to GEL 4.35 in 9M 2013
    - Q3 2014 EPS stood at GEL 1.74, up 5.5% y-o-y and 6.1% q-o-q
  - Return on Average Assets (ROAA), adjusted for impairment* stood at 3.6% in 9M 2014 largely flat on a year-on-year basis
    - ROAA for Q3 2014 stood at 3.7% compared to 4.0% in Q3 2013 and ROAA, adjusted for impairment* of 3.7% in Q2 2014
  - Return on Average Equity (ROAE), adjusted for impairment stood at 18.9% in 9M 2014, compared to 18.6% in 9M 2013
    - ROAE stood at 19.2% in Q3 2014 compared to 20.6% in Q3 2013 and ROAE, adjusted for impairment* of 19.7% in Q2 2014
- **Balance sheet strength supported by solid capital and liquidity positions and declining Cost of Funding**
  - Net loan book increased by 16.6% y-o-y (up 4.6% q-o-q), while client deposits increased by 7.4% y-o-y (up 0.5% q-o-q)
  - Cost of Client Deposits decreased to a record low of 4.3% in 9M 2014 from 5.8% in 9M 2013. Q3 2014 Cost of Client Deposits stood at 4.2% down from 5.2% in Q3 2013 and 4.3% in Q2 2014. Loan Yields also declined to 14.6% from 16.5% in 9M 2013. Quarterly Loan Yields stood at 14.3% in Q3 2014 compared to 14.5% in Q2 2014 and 15.8% in Q3 2013
  - Cost of credit risk improved significantly in 9M 2014 to GEL 42.5 million from GEL 51.8 million in 9M 2013. This represents an annualised Cost of Risk ratio of 1.2% in 9M 2014 compared to 1.5% in 9M 2013
  - High liquidity maintained with 25.7% of total assets made up of cash and cash equivalents, amounts due from credit institutions, the NBG CDs, Georgian government treasury bills and bonds and other high quality liquid assets as of 30 September 2014. Liquidity ratio, as per National Bank of Georgia (NBG) requirements, stood at 37.8% against the regulatory minimum of 30%
  - As of 30 September 2014, Net Loans to Customer Funds and DFI ratio stood at 103.9% compared to 100.3% as of 30 June 2014 and 96.1% as of 30 September 2013. The Net Loans to Customer Funds ratio stood at 123.9% compared to 119.0% as of 30 June 2014 and 114.7% as of 30 September 2013
  - BIS Tier I capital adequacy ratio stood at 22.7% compared to 23.7% a year ago
  - NBG (Basel 2/3) Tier I capital adequacy ratio stood at 11.2% as at 30 September 2014 compared to 10.8% as at 30 June 2014 (see Annex I on page 42 for more information)
  - Book value per share increased by 12.6% y-o-y to GEL 36.97 (US$21.10/GBP 12.99)
  - Balance Sheet leverage remained flat y-o-y at 4.1 times

****Adjusted for one-off impairment of BG Bank in Ukraine in Q2 2014***

- **Business highlights**
  - Retail Banking continues to deliver strong franchise growth, supported by the Express Banking strategy, adding 2,217 Express Pay Terminals and 670,553 Express Cards since the launch of the Express Banking service. Retail Banking's net loan book grew 21.9% y-o-y and stood at GEL 1,858.7 million, while client deposits increased by 23.0% y-o-y to GEL 1,193.8 million
  - Corporate Banking's net loan book growth rate picked up in Q3 2014, increasing by 11.7% y-o-y to GEL 1,870.1 as of 30 September 2014. Corporate Banking Cost of Deposits decreased markedly from 5.0% in 9M 2013 to a record low 2.9% in 9M 2014. Pressure on Corporate Banking NIM continued
  - Investment Management's Assets under Management (AUM*) increased by 20.4% y-o-y to GEL 932.7 million as of 30 September 2014. Since the launch of the Certificate of Deposit (CD) programme in January 2013, the volume of CDs issued reached GEL 376.2 million, as of 30 September 2014. Net fee and commission for Investment Management increased to GEL 8.5 million in 9M 2014 from GEL 1.0 million in 9M 2013
  - The Group's healthcare business, which includes healthcare services and health insurance, reported a GEL 13.2 million 9M 2014 profit (GEL 11.3 million in 9M 2013). Profit from healthcare services increased to GEL 10.6 million from GEL 4.2 million in 9M 2013, while health insurance profit decreased from GEL 7.1 million in 9M 2013 to GEL 2.7 million in 9M 2014. The Group's healthcare business operates 38 healthcare facilities and 2,140 hospital beds as of 30 September 2014. The market share of the Group's healthcare business grew from 14.3% as of 31 December 2013 to 22.5% as of 30 September 2014 in terms of hospital beds, while the health insurance business of the Group accounted for 37.0% of the total health insurance sector of Georgia based on gross premiums written as of 30 June 2014, compared to 28.9% as of 31 December 2013
  - Affordable Housing completed its second housing project and the construction of four new housing projects is underway. 26% of apartments have already been sold in the newest project launched in September 2014. 39% of apartments were sold in the project launched in July 2014. 81% and 59% respectively were sold in two projects launched in December 2013. Net profit from the Bank's Affordable Housing business totalled GEL 6.8 million in 9M 2014, reflecting the recognition of major part of the revenue from the completed second project

Includes AUM of Galt &Taggart and Aldagi Pension Fund

"I am very pleased to report another robust quarterly performance, supported by further macroeconomic improvement, with Georgia's real GDP growth rate reaching 5.5% in Q3 2014 and 5.9% in 9M 2014. During the quarter, our revenue grew 7.8% q-o-q to GEL 155.4 million and our quarterly profit amounted to GEL 62.3 million, up 6.8% compared to Q2 2014. The ROAE for the quarter was 19.2% and earnings per share reached GEL 1.74.

The Bank is continuing to deliver on its key strategic initiatives, and I would particularly like to highlight the main drivers of the strong results that also reflect the effectiveness of our strategy. Firstly, we have delivered a healthy Q3 2014 growth of the loan book in both the retail and corporate businesses, combined with a q-o-q NIM pick-up. Customer lending in Q3 increased by 4.6% to GEL 3,827.6 million. Secondly, we observed strong net fee and commission income which grew by 26.9% y-o-y driven by the Investment Management and Retail Banking businesses. Thirdly, our Healthcare revenue recorded a triple digit growth of 149.3% y-o-y in Q3, driven by both organic growth and the impact of recent acquisitions.

We attribute these positive revenue developments to the key strategic initiatives we have put in place over the last few years. Along with the development of our Investment Management business, the expansion of our Retail Banking business through our Express Banking and payment systems strategies has delivered a significantly increased contribution in net fee and commission income, which grew to GEL 27.3 million. I am pleased to see reversal of the recent trend, with the fee and commission income growth rate of 21.2% now significantly outpacing the fee and commission expense growth rate of 4.7%. The number of Express Cards grew to 670,553, while our multifunctional Express Pay terminals grew to 2,217 since the launch in Q4 2012, translating into 26.8 million transactions per quarter, up from 15.5 million in Q3 2013. In Lari terms, this translates into GEL 321.1 million transaction volumes in Q3 2014 vs GEL 142.3 million in Q3 2013. Similarly, our POS terminal footprint increased 31.7% y-o-y to 5,979 POS terminals outstanding, while the volume of transactions through our POS terminals grew 39.4% to GEL 421.5 million.

Our net fee and commission results this quarter also benefited from our Investment Management strategy, which we put in place as a timely response to developments in the corporate landscape and the start of the development of the Georgian capital markets. With this move, we have enhanced our fee generating business that we have uniquely positioned to build upon our recent pioneering successes in our wealth management and research services and our extensive coverage of the corporate client base in Georgia. In the first nine months of 2014, Investment Management succeeded in contributing GEL 8.5 million to our net fee and commission income through its recently launched corporate advisory service. Furthermore, through the expansion of our Investment Management business this year and the respective rebranding of our brokerage subsidiary into Galt & Taggart (G&T), we have brought our existing wealth, advisory, research products and corporate advisory services together with private equity, wealth management and brokerage businesses under one roof. In September 2014, G&T hosted more than 60 international investors at the inaugural G&T equity and bond conference in Tbilisi, where more than 100 one-on-one meetings were held with Georgian and Azeri corporates. The strong investor interest and the engagement of our corporate clients demonstrated the important role G&T is strongly positioned to play in the capital markets development in the region, and the opportunities for its business as Georgia's attractiveness as an investment destination continues to increase and be understood.

We are also pleased to see substantial benefits of our strategy for our healthcare business – Georgia Healthcare Group, which since August this year has formally become an integrated business of the two healthcare-related businesses (healthcare services and health insurance). In our healthcare services business we have progressed further in terms of our M&A activity by acquiring seven new hospitals with a total number of 850 beds in Tbilisi, markedly strengthening our footprint in this market over the last 12 months. While we have not yet fully realised the synergies from these acquisitions, we have nevertheless reported a 65.7% y-o-y increase in net healthcare services revenue to GEL 38.8 million, and a 152.0% y-o-y growth in healthcare services profit to GEL 10.6 million.

I would also like to touch briefly upon National Bank of Georgia's recent announcement, where the NBG intends to regulate banks on standalone basis, restricting investments and ownerships of non-banking businesses by local regulated banking entities. Local banks have to comply with the new requirement by the end of 2015. In order to comply with new regulation, we intend to undertake a legal restructuring that will entail the transfer of the ownership of the non-banking businesses from JSC Bank of Georgia to its holding company - Bank of Georgia Holdings PLC. A detailed restructuring plan will be presented later this year.

Finally, we are continuing to maintain our clear focus on our immediate key strategic objectives and we believe we are firmly on track to deliver another strong performance for the full year," commented ***Irakli Gilauri*****,** Chief Executive Officer of Bank of Georgia Holdings PLC and JSC Bank of Georgia.

FINANCIAL SUMMARY

BGH (Consolidated, Unaudited, IFRS-based) **Income Statement Summary** *GEL thousands, unless otherwise noted*	**Nine months ended** **30 Sep 2014**	 **30 Sep 2013**	**Change** **Y-O-Y**
Revenue[1]	436,875	400,698	9.0%
Operating expenses	(189,270)	(164,252)	15.2%
Operating income before cost of credit risk	247,605	236,446	4.7%
Cost of credit risk[2]	(42,468)	(51,803)	-18.0%
Operating income before non-recurring items	205,137	184,643	11.1%
Net non-recurring items	(8,924)	(6,871)	29.9%
Profit	174,289	153,699	13.4%
Earnings per share (basic, diluted) (GEL)	4.89	4.35	12.4%

BGH (Consolidated, Unaudited, IFRS-based) **Statement of Financial Position** *GEL thousands, unless otherwise noted*	**As at** **30 Sep 2014**	 **30 Sep 2013**	**Change** **Y-O-Y**	**As at** **30 Jun 2014**	**Change** **Q-O-Q**
Total assets	6,815,668	5,954,347	14.5%	6,667,681	2.2%
Net loans[3]	3,827,556	3,283,508	16.6%	3,659,427	4.6%
Customer funds[4]	3,088,254	2,862,512	7.9%	3,074,710	0.4%
Tier I Capital Adequacy Ratio (BIS)[5]	22.7%	23.7%		22.5%	
Total Capital Adequacy Ratio (BIS)[5]	26.4%	28.6%		26.3%	
NBG Tier I Capital Adequacy Ratio (Basel 2/3)[6]	11.2%	N/A		10.8%	
NBG Total Capital Adequacy Ratio (Basel 2/3)[6]	14.2%	N/A		14.0%	
NBG Tier I Capital Adequacy Ratio[7]	14.5%	15.4%		14.8%	
NBG Total Capital Adequacy Ratio[7]	14.1%	16.6%		13.8%	
Leverage (times)[8]	4.1	4.1		4.3	
GEL/US$ Exchange Rate (period-end)	1.7524	1.6644		1.7691	
GEL/GBP Exchange Rate (period-end)	2.8450	2.6774		3.0114	

BGH (Consolidated, Unaudited, IFRS-based) **Income Statement Summary** *GEL thousands, unless otherwise noted*	**Quarter ended** **30 Sep 2014**	 **30 Sep 2013**	**Change** **Y-O-Y**	**Quarter ended** **30 Jun 2014**	**Change** **Q-O-Q**
Revenue[1]	155,363	138,279	12.4%	144,175	7.8%
Operating expenses	(65,956)	(54,889)	20.2%	(64,270)	2.6%
Operating income before cost of credit risk	89,407	83,390	7.2%	79,905	11.9%
Cost of credit risk[2]	(15,306)	(15,540)	-1.5%	(13,847)	10.5%
Operating income before net non-recurring items	74,101	67,850	9.2%	66,058	12.2%
Net non-recurring items	(727)	(1,418)	-48.7%	(7,077)	-89.7%
Profit	62,308	58,597	6.3%	58,318	6.8%
Earnings per share (basic, diluted) (GEL)	1.74	1.65	5.5%	1.64	6.1%

[1] Revenue includes net interest income, net fee and commission income, net insurance revenue, net healthcare revenue and other operating non-interest income

[2] Cost of credit risk includes impairment charge (reversal of impairment) on: loans to customers, finance lease receivables and other assets and provisions

[3] Net loans equal to net loans to customers and net finance lease receivables

[4] Customer funds equal amounts due to customers

[5] BIS Tier I Capital Adequacy ratio equals consolidated Tier I Capital as of the period end divided by total consolidated risk weighted assets as of the same date. BIS Total Capital Adequacy ratio equals total consolidated capital as of the period end divided by total consolidated risk weighted assets. Both ratios are calculated in accordance with the requirements of Basel Accord I

[6] NBG Tier I Capital and Total Capital Adequacy ratios are calculated in accordance with the requirements of the National Bank of Georgia based on Basel 2/3 for more information please see page 42

[7] NBG Tier I Capital and Total Capital Adequacy ratios are calculated in accordance with the requirements of the National Bank of Georgia based on Basel I

[8] Leverage (times) equals total liabilities divided by total equity

DISCUSSION OF RESULTS

Revenue

GEL thousands, unless otherwise noted	Nine months ended 30 Sep 2014	30 Sep 2013	Change Y-O-Y
Loans to customers	393,188	389,493	0.9%
Investment securities[1]	28,401	27,223	4.3%
Amounts due from credit institutions	5,263	6,678	-21.2%
Finance lease receivables	6,378	4,896	30.3%
Interest income	**433,230**	**428,290**	**1.2%**
Amounts due to customers	(99,749)	(123,404)	-19.2%
Amounts due to credit institutions, of which:	(46,734)	(49,650)	-5.9%
Subordinated debt	(8,654)	(16,938)	-48.9%
Loans and deposits from other banks	(38,080)	(32,712)	16.4%
Debt securities issued, of which:	(39,977)	(24,404)	63.8%
Eurobonds	(38,994)	(24,404)	59.8%
Other	(983)	-	-
Interest expense	**(186,460)**	**(197,458)**	**-5.6%**
Net interest income before interest rate swaps	**246,770**	**230,832**	**6.9%**
Net loss from interest rate swaps	-	(303)	-100.0%
Net interest income	**246,770**	**230,529**	**7.0%**
Fee and commission income	97,974	83,906	16.8%
Fee and commission expense	(24,612)	(20,111)	22.4%
Net fee and commission income	**73,362**	**63,795**	**15.0%**
Net insurance premiums earned	77,950	95,982	-18.8%
Net insurance claims incurred	(52,208)	(60,862)	-14.2%
Net insurance revenue	**25,742**	**35,120**	**-26.7%**
Healthcare revenue	85,681	41,745	105.2%
Cost of healthcare services	(53,420)	(27,730)	92.6%
Net healthcare revenue[2]	**32,261**	**14,015**	**130.2%**
Real estate income	14,001	3,973	NMF
Net gain from trading and investment securities	310	2,818	-89.0%
Net gain from revaluation of investment property	586	7,710	-92.4%
Net gain from foreign currencies	34,002	33,881	0.4%
Other operating income	9,841	8,857	11.1%
Other operating non-interest income	**58,740**	**57,239**	**2.6%**
Net non-interest income	**190,105**	**170,169**	**11.7%**
Revenue	**436,875**	**400,698**	**9.0%**

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

Revenue increased by 9.0% in 9M 2014 to reach another nine month record of GEL 436.9 million. The growth was attributable to a 7.0%, or GEL 16.2 million, increase in net interest income and an 11.7%, or GEL 19.9 million, increase in non-interest income, which was primarily driven by the robust performance of the Bank's Retail Banking, healthcare and real estate businesses.

Net interest income grew 7.0% y-o-y to GEL 246.8 million, as our continuous efforts to optimise liability costs, resulted in a reduction of interest expense by 5.6% y-o-y to GEL 186.5 million. The main contributor to the interest expense reduction on a year-on-year basis was a 19.2% decline in interest expense on amounts due to customers (customer funds), largely a result of the 150 bps year-on-year reduction of Cost of Client Deposits to a record low 4.3%. We were able to reduce interest expense while at the same time increasing the average client deposits in 9M 0214 by 8.8% y-o-y. The reduced Costs of Borrowed Funds translated into a 5.9% y-o-y decline in interest expense on amounts due to credit institutions to GEL 46.7 million, while the cost of amounts due to credit institutions declined by 120 bps to 5.1% in the first nine months of 2014. The 63.8% increase in interest expense on debt securities issued reflected the tap issue of Eurobonds in 2H 2013. The overall impact of these efforts aimed at reducing funding costs during the period was a 130 bps decline in the Cost of Funding to 4.9%.

Interest income increased 1.2% to GEL 433.2 million reflecting the healthy growth of interest income from loans to customers in Q3 2014, which at 5.0% growth rate on a quarterly basis more than offset the weaker performance of interest income on the loan book in the first half of 2014. Overall, the competitive pressures in the banking sector as well as high excess liquidity in the past 12 months drove down the Loan Yield by 190 bps to 14.6% for the 9M 2014. Interest income from liquid assets (investment securities and amounts due from credit institutions) stayed largely flat in aggregate as a result of downward pressure on asset yields, despite a 22.5% y-o-y increase in average liquid assets in 9M 2014.

Net Interest Margin (NIM)

GEL thousands, unless otherwise noted	**Nine months ended** 30 Sep 2014	30 Sep 2013	**Change** Y-O-Y
Net interest income	246,770	230,529	7.0%
Net Interest Margin	**7.4%**	**7.7%**	
Average interest earning assets[1]	4,517,674	3,989,398	13.2%
Average interest bearing liabilities[1]	5,061,528	4,298,898	17.7%
Average loans, currency blended	3,581,835	3,091,659	15.9%
Average loans, GEL	1,146,424	930,158	23.3%
Average loans, FC	2,435,411	2,161,501	12.7%
Average client deposits, currency blended	3,044,871	2,797,331	8.8%
Average client deposits, GEL	885,094	935,128	-5.4%
Average client deposits, FC	2,159,777	1,862,203	16.0%
Average liquid assets, currency blended	1,907,499	1,557,207	22.5%
Average liquid assets, GEL	817,652	757,262	8.0%
Average liquid assets, FC	1,089,847	799,945	36.2%
Excess liquidity (NBG)[2]	245,941	240,332	2.3%
Liquid assets yield, currency blended	*2.4%*	*2.9%*	
Liquid assets yield, GEL	*4.9%*	*5.3%*	
Liquid assets yield, FC	*0.5%*	*0.6%*	
Loan yield, total	*14.6%*	*16.5%*	
Loan yield, GEL	*19.8%*	*23.0%*	
Loan yield, FC	*12.1%*	*13.7%*	
Cost of funding, total	*4.9%*	*6.2%*	
Cost of funding, GEL	*4.1%*	*5.3%*	
Cost of funding, FC	*5.2%*	*6.5%*	

[1] Daily averages are used for calculation of average interest earning assets and average interest earning liabilities
[2] Excess liquidity is the excess amount of 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 9M 2014 NIM declined by 30 bps y-o-y to 7.4%. The decline reflects a 13.2% y-o-y increase in average interest earning assets that supported only a 7.0% y-o-y increase in net interest income due to the lower margins, as the decline in Cost of Funding was more than offset by the decline in Loan Yields. The NIM nevertheless remains comfortably within the Bank's target of 7-7.5%.

Loan Yields decreased 190 bps y-o-y to 14.6%, as a 20 basis points improvement in Loan Yields in Q3 2014 compared to the prior quarter could not offset the decline in Loan Yields in the first half of 2014. The Loan Yield decline is the result of competitive pressures, especially in the first half of 2014, and excess liquidity, in the market. The decline was particularly pronounced on GEL Loan Yield, which decreased 320 bps (vs a 160 bps decline in FC Loan Yield).

Cost of Funding decreased 130 bps y-o-y to 4.9% due to market forces and the efforts to optimise liability costs discussed above.

The NIM continued to be supported by an increased portion of higher-yielding Retail Banking loan products in the Group's total loan portfolio. Benefiting from the expansion of the Express Banking business, the share of Retail Banking loan book* to total loan book increased from 46% as of 30 September 2013 to 49% as of 30 September 2014.

**Includes mortgage loans totalling GEL 33.1 million generated by the Bank's Affordable Housing business*

Net fee and commission income

GEL thousands, unless otherwise noted	Nine months ended 30 Sep 2014	30 Sep 2013	Change Y-O-Y
Fee and commission income	97,974	83,906	16.8%
Fee and commission expense	(24,612)	(20,111)	22.4%
Net fee and commission income	**73,362**	**63,795**	**15.0%**

Net fee and commission income increased 15.0% to reach a record GEL 73.4 million, the growth predominantly driven by Retail Banking net fee and commission income performance. The increase reflects both the increase in the Bank's client base and the number of transactions particularly through the Bank's cost-effective distance channels on the back of the expansion of the Bank's Express Banking business. The growth was mainly attributed to Q3 2014, when net fee and commission income grew 4.5% q-o-q as a result of intensified transactional banking activities during the period. Fee and commission expense also increased to GEL 24.6 million, up 22.4% reflecting client acquisition costs within the Express Banking strategy and card fees. Another factor contributing to the y-o-y increase in fee expenses was the outsourcing of the Bank's cash collection service (GEL 1.6 million in 9M 2014), the costs of which effectively shifted from salaries and other employee benefits to fee and commission expense.

Net healthcare revenue and net insurance revenue

GEL thousands, unless otherwise noted	Nine months ended 30 Sep 2014	30 Sep 2013	Change Y-O-Y
Net insurance premiums earned	77,950	95,982	-18.8%
Net insurance claims incurred	(52,208)	(60,862)	-14.2%
Net insurance revenue	**25,742**	**35,120**	**-26.7%**
Healthcare revenue	85,681	41,745	105.2%
Cost of healthcare services, of which:	(53,420)	(27,730)	92.6%
Salaries and other employee benefits	(31,752)	(15,460)	105.4%
Depreciation expenses	(4,892)	(3,756)	30.2%
Other operating expenses	(16,776)	(8,514)	97.0%
Net healthcare revenue[1]	**32,261**	**14,015**	**130.2%**
Net insurance and healthcare revenue (total)	**58,003**	**49,135**	**18.0%**

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

The Group's insurance and healthcare business enjoys a market share of 22.5% in terms of hospital beds as of 30 September 2014 (14.3% as of 31 December 2013), 37.0% in health insurance (28.9% as of 31 December 2013) and 36.8% in P&C insurance as of 30 June 2014, based on gross insurance premium revenue, according to insurance data as reported by the Insurance State Supervision Service of Georgia.

The Group's insurance and healthcare revenue increased by 18.0% y-o-y to GEL 58.0 million in 9M 2014. The increase was driven by the strong performance of our healthcare operations, resulting in a 130.2% increase in net healthcare revenue to GEL 32.3 million. The Group's healthcare business benefited from the introduction of a recent Government-funded universal healthcare reform programme (the Universal Healthcare Programme or UHC), which has extended Government-funded healthcare coverage to a wider portion of the population. The subsequent increase of the Government-funded healthcare expenditure in the country contributed significantly to the organic growth of our healthcare business. Reflecting the robust growth of the healthcare business, the cost of healthcare services, increased to GEL 53.4 million, or by 92.6% y-o-y, which compares favorably to the 105.2% y-o-y growth of healthcare revenue in 9M 2014. The increase in healthcare costs was primarily driven by a 105.4% increase in salaries and other employment benefits, which doubled on y-o-y basis as a result of acquisitions as well as organic growth. Post-acquisition synergies are not yet fully reflected in the current financial results, as the integration process is still ongoing for the recent acquisitions. The integration of the two healthcare-related businesses (healthcare services and health insurance business) translated into health insurance playing a feeder role driving patient volumes to the Group's healthcare service business.

The UHC entails the shift of privately managed Government-funded health insurance to direct management by the Government away from private insurance companies. As anticipated, this had a negative effect on the health insurance businesses, driving down the Group's net insurance premiums earned to GEL 78.0 million, down 18.8% y-o-y. Correspondingly, insurance claims incurred also decreased 14.2% to GEL 52.2 million. *(For more information see Healthcare discussion on page 22)*

Notwithstanding the reduction of insurance premiums earned, the Group's market share in health insurance in terms of gross insurance premium revenue grew from 28.9% as of 31 December 2013 to 37.0% as of 30 June 2014 (as reported by the Insurance State Supervision Service in Georgia).

Other operating non-interest income

	Nine months ended		**Change**
GEL thousands, unless otherwise noted	**30 Sep 2014**	**30 Sep 2013**	**Y-O-Y**
Real estate income	14,001	3,973	NMF
Net gain from trading and investment securities	310	2,818	-89.0%
Net gain from revaluation of investment property	586	7,710	-92.4%
Net gain from foreign currencies	34,002	33,881	0.4%
Other operating income[1]	9,841	8,857	11.1%
Other operating non-interest income	**58,740**	**57,239**	**2.6%**

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

Other operating non-interest income increased 2.6% to GEL 58.7 million, the growth primarily driven by a robust growth of real estate income, which increased from GEL 4.0 million in 9M 2013 to GEL 14.0 million in 9M 2014. Real estate income comprised predominantly m^2 Real Estate income (GEL 10.9 million) with the balance coming from operating leases and gain/loss from sale of property and equipment and investment property of the entire Bank of Georgia group. The robust growth of real estate income reflects completion of m^2 Real Estate's second project following handover of completed apartments. Net gain from foreign currencies stayed flat for the 9M 2014 at GEL 34.0 million, but showed strong q-o-q growth in Q3 2014 as a result of strengthening operating environment. Other operating income, which predominantly includes revenue from the Bank's wine making subsidiary Teliani Valley, increased by 11.1% to GEL 9.8 million.

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

	Nine months ended		**Change**
GEL thousands, unless otherwise noted	**30 Sep 2014**	**30 Sep 2013**	**Y-O-Y**
Salaries and other employee benefits	(113,254)	(99,438)	13.9%
General and administrative expenses	(52,525)	(43,222)	21.5%
Depreciation and amortisation expenses	(20,854)	(19,889)	4.9%
Other operating expenses	(2,637)	(1,703)	54.8%
Operating expenses	**(189,270)**	**(164,252)**	**15.2%**
Operating income before cost of credit risk	**247,605**	**236,446**	**4.7%**
Cost of credit risk	**(42,468)**	**(51,803)**	**-18.0%**
Operating income before net non-recurring items	**205,137**	**184,643**	**11.1%**
Net non-recurring items	(8,924)	(6,871)	29.9%
Profit before income tax expense	**196,213**	**177,772**	**10.4%**
Income tax expense	(21,924)	(24,073)	-8.9%
Profit	**174,289**	**153,699**	**13.4%**

The Bank's operating expenses increased 15.2% y-o-y to GEL 189.3 million as a result of a 13.9% increase in salaries and other employee benefits to GEL 113.3 million and a 21.5% increase in general and administrative expenses to GEL 52.5 million. The increase in operating expenses was driven by the growth of the Group's businesses across the board and particularly its healthcare business, which continues to grow organically and from acquisitions. The healthcare business headcount increased significantly in the period as a result of these acquisitions but post acquisition synergies have not yet been fully realised. Bank of Georgia's standalone headcount, stayed largely flat at 3,649 employees but the increase in the number of senior managers eligible for share based compensation resulted in higher salaries and other employee benefits expenses. The expansion of the healthcare business was also reflected in the 21.5% y-o-y growth in general and administrative expenses, which was also impacted by an expanded Corporate Social Responsibility programme that entails initiatives promoting education, conserving nature and supporting children with disabilities. Our Investment Management business, which is gearing up to build its corporate advisory business, also put an upward pressure on costs during the reporting period. Due to these factors, the Cost to Income ratio increased to 43.3% in 9M 2014 compared to 41.0% in 9M 2013. However in Q3 2014 the Cost to Income ratio resumed its declining trend and improved by 2.1 ppts q-o-q to 42.5%. As the restructuring and integration process for the Bank's healthcare business nears completion, the Cost to Income ratio is expected to continue this trend.

As a result of the foregoing, operating income before cost of credit risk increased by 4.7% y-o-y to GEL 247.6 million.

The cost of credit risk decreased 18.0% to GEL 42.5 million largely as a result of lower impairments in the Retail Banking segment during the reporting period compared with 9M 2013, translating into Cost of Risk ratio of 1.2% in 9M 2014 compared to 1.5% during the same period last year. The improvement in cost of credit risk also reflects a new provisioning methodology* that the Bank implemented in January 2014. The overall effect of the new methodology was largely immaterial as its positive impact on the Retail Banking cost of credit risk was only slightly more than small negative impact on Corporate Banking cost of credit risk.

The Bank's non-performing loans (NPLs), defined as the principal and interest on the overdue loans for more than 90 days and additional potential losses estimated by management, increased by GEL 10.8 million y-o-y to GEL 154.4 million as of 30 September 2014. The Group's NPLs to Total Gross Loans ratio stood at 3.9% as of 30 September 2014 compared to 4.2% as of 30 September 2013. The NPL Coverage ratio stood at 78.5%, compared to 86.2% as of 30 September 2013, the decline predominantly reflecting increased write-offs in 2014. NPL coverage adjusted for the discounted value of collateral stood at a comfortable level of 112.4% as of 30 September 2014.

In 9M 2014, the Group's net operating income before non-recurring items totalled GEL 205.1 million, up 11.1% y-o-y. The Bank's net non-recurring items for the period increased to GEL 8.9 million primarily as a result of a full impairment of the Bank's legacy investment in BG Bank in Ukraine (approximately GEL 3.8 million).

As a result, profit before income tax in the first nine months of 2014 totalled GEL 196.2 million, an increase of GEL 18.4 million, or 10.4% y-o-y. After income tax expense of GEL 21.9 million, the Bank's 9M 2014 profit for the period stood at GEL 174.3 million, up GEL 20.6 million, or 13.4% compared to the first nine months of 2013.

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

Balance Sheet highlights

The Bank's balance sheet composition largely reflects the management's continuous efforts in liability management aimed at optimising its funding costs. Compared to the same period last year, the Bank increased the share of its debt securities issued and amounts due credit institutions (which include borrowed funds) in total liabilities from 34.2% as of 30 September 2013 to 37.5% as of 30 September 2014, by attracting cheaper borrowed funds during the period. The new funding attracted include Eurobond tap issue of US$150 million in Q4 2013 and less costly long-term DFI funding, partially replacing more costly GEL denominated corporate client deposits. As a result, the Bank's Cost of Amounts due to Credit Institutions improved from 6.3% in 9M 2013 to 5.1% in 9M 2014.

The Bank continues to fund its growth predominantly by DFI funding and client deposits, with amounts due to credit institutions (mostly consisting of borrowings from DFIs) and client deposits accounting for 78.8% of liabilities as of 30 September 2014, (down from 85.0% as of 30 September 2013). The decrease reflects the Eurobond issue tap, which further diversified the funding structure of our balance sheet. In spite of a significant reduction in Cost of Client Deposits over the period – 150 bps to 4.3% in 9M 2014 – the Bank's client deposits increased by 7.4% or GEL 211 million to GEL 3,060.8 million as of 30 September 2014. The efforts for optimising liability costs have resulted in the reduction of Cost of Funding from 6.2% to 4.9% over one year period.

The balance sheet remains highly liquid reflecting the general trend in the banking sector. Liquid assets increased by 10.7% y-o-y and comprised 25.7% of total assets and 31.9% of liabilities. Liquid assets have decreased however on q-o-q basis (down 4.8% q-o-q) on the back of a strong growth of the loan book, up 4.6% q-o-q and up 16.6% y-o-y to GEL 3,827.6 million. The loan book growth was driven by robust growth of both the retail and corporate lending, particularly the Retail Banking loan book, which increased 21.9% y-o-y.

Total equity attributable to the shareholders of the Group stood at GEL 1,271.4 million, up 14.1% y-o-y. The Bank's book value per share on 30 September 2014 stood at GEL 36.97 (US$21.10/GBP12.99), compared to GEL 34.95 (US$19.76/GBP11.61) as of 30 June 2014.

Liquidity, Funding and Capital Management

GEL thousands, unless otherwise noted	**As at 30 Sep 2014**	**As at 30 Sep 2013**	**Change Y-O-Y**	**As at 30 Jun 2014**	**Change Q-O-Q**
Amounts due to credit institutions, of which:	1,264,299	1,216,719	3.9%	1,240,128	1.9%
Subordinated debt	133,883	208,414	-35.8%	132,800	0.8%
Other amounts due to credit institutions	1,130,416	1,008,305	12.1%	1,107,328	2.1%
Debt securities issued, of which:	794,952	419,543	89.5%	786,432	1.1%
Eurobonds	719,184	419,543	71.4%	740,246	-2.8%
Other	75,768	-	-	46,186	64.0%
Customer Funds, of which:	3,088,254	2,862,512	7.9%	3,074,710	0.4%
Client deposits, of which	3,060,784	2,850,000	7.4%	3,046,845	0.5%
CDs	442,808	144,056	NMF	366,212	20.9%
Promissory notes	27,470	12,512	119.5%	27,865	-1.4%
Net Loans / Customer Funds	123.9%	114.7%		119.0%	
Net Loans / Customer Funds + DFIs	103.9%	96.1%		100.3%	
Liquid assets	**1,750,417**	**1,580,926**	**10.7%**	**1,838,181**	**-4.8%**
Liquid assets, GEL	**854,270**	**821,994**	**3.9%**	**756,939**	**12.9%**
Liquid assets, FC	**896,147**	**758,932**	**18.1%**	**1,081,242**	**-17.1%**
Liquid assets as percent of total assets	*25.7%*	*26.6%*		*27.6%*	
Liquid assets as percent of total liabilities	*31.9%*	*33.1%*		*34.0%*	
NBG liquidity ratio	*37.8%*	*37.5%*		*38.1%*	
Excess liquidity (NBG)	245,941	240,332	2.3%	255,123	-3.6%
RATIOS					
Tier I Capital Adequacy Ratio (NBG)	*14.5%*	*15.4%*		*14.8%*	
Total Capital Adequacy Ratio (NBG)	*14.1%*	*16.6%*		*13.8%*	
Tier I Capital Adequacy Ratio (NBG Basel 2/3)	*11.2%*	*N/A*		*10.8%*	
Total Capital Adequacy Ratio (NBG Basel 2/3)	*14.2%*	*N/A*		*14.0%*	
Tier I Capital Adequacy Ratio (BIS)	*22.7%*	*23.7%*		*22.5%*	
Total Capital Adequacy Ratio (BIS)	*26.4%*	*28.6%*		*26.3%*	

The deployment of liquid assets in the Bank's loan book in Q3 2014 led to the 4.8% q-o-q decline in the liquid assets, with the liquidity ratio of 37.8% (NBG methodology) remaining well above regulatory requirements of 30%. The pick-up in lending during the period and in the third quarter in particular, also resulted in a Net Loans to Customer Funds ratio of 123.9% compared to 114.7% a year ago. Net Loans to Customer Funds and DFIs ratio, closely observed by management, stood at a comfortable 103.9% compared to 96.1% as of 30 September 2013.

The Bank's Tier I ratio (BIS) stood at a robust 22.7%, compared to 22.5% as of 30 June 2014 and 23.7% as of 30 September 2013. Risk weighted assets increased by 16.0% y-o-y to GEL 5,627.6 million, reflecting the increase in the loan book during the year, while Tier I Capital (BIS) increased by 11.0% to GEL 1,277.6 million. The Bank's NBG Tier I Capital Adequacy Ratio calculated according to new regulations based on Basel 2/3 stood at 11.2% compared to 10.8% as of 30 June 2014. *For information on the regulatory changes on capital requirements see Annex I on page 42.*

RESULTS BY QUARTER

Revenue

GEL thousands, unless otherwise noted	Quarter ended 30 Sep 2014	Quarter ended 30 Sep 2013	Change Y-O-Y	Quarter ended 30 Jun 2014	Change Q-O-Q
Loans to customers	134,617	129,445	4.0%	128,157	5.0%
Investment securities	10,330	9,581	7.8%	9,552	8.1%
Amounts due from credit institutions	1,758	1,733	1.4%	1,467	19.8%
Finance lease receivables	1,880	1,688	11.4%	2,238	-16.0%
Interest income	**148,585**	**142,447**	**4.3%**	**141,414**	**5.1%**
Amounts due to customers	(32,762)	(37,866)	-13.5%	(32,603)	0.5%
Amounts due to credit institutions	(15,764)	(16,215)	-2.8%	(14,726)	7.0%
Subordinated debt	(2,665)	(5,794)	-54.0%	(2,633)	1.2%
Loans and deposits from other banks	(13,099)	(10,421)	25.7%	(12,093)	8.3%
Debt securities issued, of which:	(13,547)	(8,213)	64.9%	(13,531)	0.1%
Eurobonds	(13,027)	(8,213)	58.6%	(13,233)	-1.6%
Other	(520)	-	-	(298)	74.5%
Interest expense	**(62,073)**	**(62,294)**	**-0.4%**	**(60,860)**	**2.0%**
Net interest income before interest rate swaps	**86,512**	**80,153**	**7.9%**	**80,554**	**7.4%**
Net loss from interest rate swaps	-	(118)	-100.0%	-	-
Net interest income	**86,512**	**80,035**	**8.1%**	**80,554**	**7.4%**
Fee and commission income	35,159	29,008	21.2%	34,737	1.2%
Fee and commission expense	(7,844)	(7,489)	4.7%	(8,610)	-8.9%
Net fee and commission income	**27,315**	**21,519**	**26.9%**	**26,127**	**4.5%**
Net insurance premiums earned	23,332	31,693	-26.4%	25,228	-7.5%
Net insurance claims incurred	(13,647)	(19,297)	-29.3%	(18,876)	-27.7%
Net insurance revenue	**9,685**	**12,396**	**-21.9%**	**6,352**	**52.5%**
Healthcare revenue[1]	33,090	14,256	132.1%	29,843	10.9%
Cost of healthcare services	(20,566)	(9,232)	122.8%	(17,904)	14.9%
Net healthcare revenue[1]	**12,524**	**5,024**	**149.3%**	**11,939**	**4.9%**
Real estate income	2,209	1,373	60.9%	5,098	-56.7%
Net gain from trading and investment securities	125	228	-45.2%	97	28.9%
Net gain from revaluation of investment property	586	2,868	-79.6%	-	-
Net gain from foreign currencies	13,150	12,203	7.8%	9,963	32.0%
Other operating income	3,257	2,633	23.7%	4,045	-19.5%
Other operating non-interest income	**19,327**	**19,305**	**0.1%**	**19,203**	**0.6%**
Net-non interest income	**68,851**	**58,244**	**18.2%**	**63,621**	**8.2%**
Revenue	**155,363**	**138,279**	**12.4%**	**144,175**	**7.8%**

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

In Q3 2014, the Group posted a record quarterly revenue of GEL 155.4 million, up 12.4% y-o-y and 7.8% q-o-q. The growth during the quarter on both a year-on-year and quarter-on-quarter basis reflects an increase of net interest income on the back of declining funding costs and pick-up in lending, as well as a particularly robust performance of net non-interest income, predominantly due to the strong performance of the Express Banking strategy and the healthcare business.

Interest income increased by 4.3% on y-o-y basis and 5.1% on q-o-q basis to GEL 148.6 million, supported by loan portfolio growth and the growth of interest income from loans by 4.0% y-o-y and 5.0% q-o-q to GEL 134.6 million. Interest expense of GEL 62.1 million stayed largely flat on a y-o-y basis as the significant growth of average interest bearing liabilities (up 17.7% y-o-y) was on the back of an 80 bps q-o-q decrease in Cost of Funding, which reached its record low level of 4.8%.

Net fee and commission income increased 26.9% y-o-y and 4.5% q-o-q to GEL 27.3 million as a result of the expansion of the Bank's Express Banking service, as well as the strong performance of the Bank's Investment Management business. The Group's non-banking operations, healthcare and real estate business performed particularly well during the reporting period. Net healthcare revenue increased from GEL 5.0 million in Q3 2013 and GEL 11.9 million in Q2 2014 to GEL 12.5 million in Q3 2014 as a result of both organic growth and acquisitions. Real estate income increased to GEL 2.2 million compared to GEL 1.4 million in Q3 2013 as the Bank's real estate subsidiary continued the handover of completed apartments in its largest project to date. Real estate income decreased on a q-o-q basis however, as the major part of handover was completed in Q2 2014. Net gain from foreign currencies posted strong growth in Q3 2014, increasing by 7.8% y-o-y and 32.0% q-o-q to GEL 13.2 million. The growth was driven by the strong operating environment, which had a positive impact on the volume of foreign currency translation transactions.

Net Interest Margin

GEL thousands, unless otherwise noted	**As at and for 30 Sep 2014**	**As at and for 30 Sep 2013**	**Change Y-O-Y**	**As at and for 30 Jun 2014**	**Change Q-O-Q**
Net interest income	86,512	80,035	8.1%	80,554	7.4%
Net Interest Margin	**7.4%**	**7.7%**		**7.3%**	
Average interest earning assets[1]	4,667,024	4,115,806	13.4%	4,478,492	4.2%
Average interest bearing liabilities[1]	5,133,468	4,403,293	16.6%	5,034,751	2.0%
Average loans, currency blended	3,700,099	3,187,088	16.1%	3,537,067	4.6%
Average loans, GEL	1,150,884	981,776	17.2%	1,130,099	1.8%
Average loans, FC	2,549,215	2,205,312	15.6%	2,406,968	5.9%
Average client deposits, currency blended	3,070,472	2,857,970	7.4%	3,039,335	1.0%
Average client deposits, GEL	900,551	911,421	-1.2%	858,596	4.9%
Average client deposits, FC	2,169,921	1,946,549	11.5%	2,180,739	-0.5%
Average liquid assets, currency blended	1,848,733	1,555,797	18.8%	1,921,384	-3.8%
Average liquid assets, GEL	824,197	783,094	5.2%	817,277	0.8%
Average liquid assets, FC	1,024,536	772,703	32.6%	1,104,107	-7.2%
Excess liquidity (NBG) [2]	245,941	240,332	2.3%	255,123	-3.6%
Liquid assets yield, currency blended	*2.6%*	*2.8%*		*2.3%*	
Liquid assets yield, GEL	*5.1%*	*5.3%*		*5.0%*	
Liquid assets yield, FC	*0.6%*	*0.3%*		*0.4%*	
Loan yield, total	*14.3%*	*15.8%*		*14.5%*	
Loan yield, GEL	*19.9%*	*22.1%*		*19.4%*	
Loan yield, FC	*11.8%*	*12.9%*		*12.1%*	
Cost of funding, total	*4.8%*	*5.6%*		*4.8%*	
Cost of funding, GEL	*4.0%*	*4.6%*		*4.0%*	
Cost of funding, FC	*5.1%*	*6.0%*		*5.1%*	

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

Q3 2014 NIM improved slightly to 7.4% compared to 7.3% in Q2 2014, with the strong growth of higher yielding Retail Banking loan book and lower level of excess liquidity more than offsetting declining Loan Yields. On a year-on-year basis, the reduction of NIM reflects the decline of Loan Yields over the past 12 month period. Notwithstanding the 150 bps reduction in the Loan Yield and a 13.4% increase of average interest earning assets, the Q3 2014 NIM decreased by only 30 bps year-on-year, reflecting the positive impact of the growth of higher yielding Retail Banking loans in total loan portfolio and the markedly improved funding costs.

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

GEL thousands, unless otherwise noted	Quarter ended 30 Sep 2014	30 Sep 2013	Change Y-O-Y	Quarter ended 30 Jun 2014	Change Q-O-Q
Salaries and other employee benefits	(40,196)	(34,361)	17.0%	(37,251)	7.9%
General and administrative expenses	(17,837)	(13,458)	32.5%	(19,198)	-7.1%
Depreciation and amortisation expenses	(7,047)	(6,550)	7.6%	(6,932)	1.7%
Other operating expenses	(876)	(520)	68.5%	(889)	-1.5%
Operating expenses	**(65,956)**	**(54,889)**	**20.2%**	**(64,270)**	**2.6%**
Operating income before cost of credit risk	**89,407**	**83,390**	**7.2%**	**79,905**	**11.9%**
Cost of credit risk	**(15,306)**	**(15,540)**	**-1.5%**	**(13,847)**	**10.5%**
Operating income before net non-recurring items	**74,101**	**67,850**	**9.2%**	**66,058**	**12.2%**
Net non-recurring items	(727)	(1,418)	-48.7%	(7,077)	-89.7%
Profit before income tax expense	**73,374**	**66,432**	**10.4%**	**58,981**	**24.4%**
Income tax expense	(11,066)	(7,835)	41.2%	(663)	NMF
Profit	**62,308**	**58,597**	**6.3%**	**58,318**	**6.8%**

In Q3 2014, the Bank's operating expenses increased 20.2% y-o-y to GEL 66.0 million. The growth was fuelled by a 17.0% increase in salaries and other employee benefits and a 32.5% increase in general administrative expenses. The growth in expenses can be attributed to the costs of the Bank's non-banking subsidiaries particularly its healthcare and real estate businesses. The healthcare businesses significantly increased its headcount following several acquisitions over the past year pushing up its costs, while respective cost synergies have not yet been fully realised. Operating expenses were also pushed higher in Q3 2014 on y-o-y basis as a result of the increase in the number of senior managers eligible for the Group's share based compensation (non-cash bonus), which translated into the increase in salaries and employee benefits, albeit flat standalone headcount of the Bank on year-on-year basis. The new initiatives within our Investment Management business aimed at expanding our fee generating businesses, as well as our expanded Corporate Social Responsibility programme, also contributed to the increased operating expenses. On q-o-q basis, operating expenses increased just 2.6% q-o-q as a result of a 7.1% q-o-q decline in general and administrative expenses, general and administrative expenses in particular. The q-o-q decline was due to the absence of Corporate Banking hospitality costs in Q3 2014 and the CSR expenses leveling off, compared to the prior quarter, after a surge in Q2 2014 (although CSR costs increased significantly on y-o-y basis). Q3 2014 marked the return to positive operating leverage, with Q3 2014 q-o-q operating leverage at 5.1 ppts.

As a result, operating income before cost of credit risk increased 7.2% y-o-y to GEL 89.4 million and increased 11.9% q-o-q.

Cost of credit risk for Q3 2014 declined 1.5% to GEL 15.3 million but increased 10.5% q-o-q as a result of a low base in Q2 2014 due to reversals in Retail Banking. Cost of Risk ratio stood at 1.6% in Q3 2014 compared to 0.9% in Q2 2014 and 1.6% in Q3 2013.

As a result of the foregoing, in Q3 2014, the Group's operating income before non-recurring items totalled GEL 74.1 million, up 9.2% y-o-y and 12.2% q-o-q. The Group's net non-recurring items declined to GEL 0.7 million from GEL 7.1 million in the previous quarter, primarily due to the absence of full impairment of the Bank's legacy investment in BG Bank, Ukraine (GEL 3.8 million). Profit before income tax in Q3 2014 reached GEL 73.4 million, up 10.4% y-o-y. After income tax expense of GEL 11.1 million, the Group's Q3 2014 profit for the period stood at GEL 62.3 million, up 6.3% y-o-y and 6.8% q-o-q.

SEGMENT RESULTS

Strategic Businesses Segment Result Discussion

Segment result discussion is presented for the Bank of Georgia's Retail Banking (RB), Corporate Banking (CB) and Investment Management (comprising Wealth Management and Galt and Taggart), Healthcare Business, P&C and Life Insurance, Affordable Housing (m^2 Real Estate) in Georgia and BNB in Belarus, excluding inter-company eliminations.

Retail Banking (RB)

GEL thousands, unless otherwise noted	**As at and for nine months ended** 30 Sep 2014	30 Sep 2013	**Change** Y-O-Y
INCOME STATEMENT HIGHLIGHTS			
Net interest income	154,299	141,008	9.4%
Net fee and commission income	41,515	38,955	6.6%
Net gain from foreign currencies	12,744	12,107	5.3%
Other operating non-interest income	2,790	3,236	-13.8%
Revenue	**211,348**	**195,306**	**8.2%**
Operating expenses	(94,288)	(89,309)	5.6%
Operating income before cost of credit risk	**117,060**	**105,997**	**10.4%**
Cost of credit risk	(6,946)	(25,706)	-73.0%
Net non-recurring items	(5,051)	(1,031)	NMF
Profit before income tax expense	**105,063**	**79,260**	**32.6%**
Income tax expense	(11,878)	(9,443)	25.8%
Profit	**93,185**	**69,817**	**33.5%**
BALANCE SHEET HIGHLIGHTS			
Net loans, standalone, Currency Blended	1,858,726	1,524,359	21.9%
Net loans, standalone, GEL	978,642	837,306	16.9%
Net loans, standalone, FC	880,084	687,053	28.1%
Client deposits, standalone, Currency Blended	1,193,825	970,579	23.0%
Client deposits, standalone, GEL	384,758	318,130	20.9%
Client deposits, standalone, FC	809,067	652,449	24.0%
Time deposits, standalone, Currency Blended	708,167	611,492	15.8%
Time deposits, standalone, GEL	172,696	146,688	17.7%
Time deposits, standalone, FC	535,471	464,804	15.2%
Current accounts and demand deposits, standalone, Currency Blended	485,658	359,087	35.2%
Current accounts and demand deposits, standalone, GEL	212,062	171,442	23.7%
Current accounts and demand deposits, standalone, FC	273,596	187,645	45.8%
KEY RATIOS			
Net interest margin, currency blended	*9.8%*	*10.3%*	
Loan yield, currency blended	*17.6%*	*20.1%*	
Loan yield, GEL	*21.5%*	*25.7%*	
Loan yield, FC	*12.6%*	*14.0%*	
Cost of deposits, currency blended	*3.9%*	*5.4%*	
Cost of deposits, GEL	*4.3%*	*5.3%*	
Cost of deposits, FC	*3.7%*	*5.5%*	
Cost of time deposits, currency blended	*5.8%*	*7.7%*	
Cost of time deposits, GEL	*8.3%*	*10.0%*	
Cost of time deposits, FC	*5.0%*	*7.1%*	
Current accounts and demand deposits, currency blended	*1.5%*	*3.5%*	
Current accounts and demand deposits, GEL	*1.8%*	*4.3%*	
Current accounts and demand deposits, FC	*1.3%*	*2.5%*	
Cost / income ratio	*44.6%*	*45.8%*	

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

Retail Banking posted strong 9M 2014 results driven by the robust growth of the Retail Banking loan book and reduced cost of credit risk.

Net interest income increased 9.4% year-on-year to GEL 154.3 million as the effect of a 21.9% y-o-y Retail Banking loan book growth significantly outweighed the 50 bps y-o-y decline in the NIM (see below). Net fee and commission income also increased 6.6% to GEL 41.5 million driven by an increase in fees generated by our Express Banking franchise and payment business. Net gain from foreign currencies also increased with a pick-up in foreign currency transactions to reach GEL 12.7 million, up 5.3% y-o-y. As a result Retail Banking revenue increased 8.2% to GEL 211.3 million

Operating expenses increased by 5.6%, or at a much slower rate than revenue growth rate, reflecting cost efficiencies achieved largely due to the success of the Express Banking footprint. This is one of the main contributors to the Bank continuously improving efficiency attributed to the shift to technology-intensive transactional banking through Express Banking services. Cost of credit risk decreased from GEL 25.7 million to GEL 6.9 million as a result of lower impairments particularly in Q2 2014 as well as the effects of new provisioning methodology which had a positive impact on Retail Banking cost of credit risk. As a result, Retail Banking profit reached GEL 93.2 million, up by GEL 23.4 million or by 33.5% y-o-y.

The Retail Banking loan book increased by 21.9% to GEL 1,858.7 million, strongly supported by a robust growth of mortgage loans. In line with the market trends across the banking sector, the Retail Banking Loan Yield declined by 250 bps y-o-y to 17.6% putting downward pressure on the Retail Banking NIM.

As the decline in Loan Yields was more than the 200 bps y-o-y decrease in the Cost of Funding, the Retail Banking NIM declined, but remained at a healthy 9.8% in 9M 2014 and supported the total NIM of the Bank on the back of the solid Retail Banking loan book growth. The decline in the Retail Banking was driven by sharp declines in the Cost of Current Accounts and Demand Deposits, which stood at 1.5% and 5.8% respectively for the 9M 2014. Overall the Cost of Deposits for the Retail Banking segment dropped y-o-y by 150 bps to 3.9% in 9M 2014,

The strong profitability of the Retail Banking segment can be largely attributed to the success of our Express Banking strategy. Express Banking is aimed at attracting the unbanked portion of the population and facilitates the transition to transactional banking to leverage the Bank's leadership in payment systems in the Georgian market. Since the launch of Express Banking service in the beginning of 2013, more than 320,000 Retail Banking clients, mostly Express Banking clients have been added to the Bank's client base. These new clients largely represent the previously unbanked portion of the population and they bring with them cheapest source of funding for the Bank - current accounts and demand deposits. Since 30 September 2013, despite the sharp fall in deposit costs, current accounts and demand deposits from Retail Banking clients have increased by 35.2%, supporting the 23.0% y-o-y growth in client deposits to reach GEL 1,193.8 million.

Highlights

- Number of active internet and mobile banking clients increased from 41,193 and 9,948 as of 30 September 2013 to 61,937 and 23,641 as of 30 September 2014, respectively. Number of transactions increased from 2,329,694 in 9M 2013 to 3,832,037 in 9M 2014
- Increased number of Express Pay terminals to 2,217 from 985 in the first nine months 2014. Express Pay terminals are used for bank transactions such as credit card and consumer loan payments, utility bill payments and mobile telephone top-ups
- Stepped up the issuance of Express cards, first contactless cards in Georgia, which also serve as a metro and bus transport payment card and offer loyalty programmes to clients
- Since the launch on 5 September 2012, 670,553 Express cards have been issued in essence replacing pre-paid metro cards in circulation since July 2009
- Issued 431,116 debit cards, including Express cards, in the first nine months 2014 bringing the total debit cards outstanding to 986,477, up 21.8% y-o-y
- Issued 24,858 credit cards of which 19,007 were American Express cards in the first nine months 2014. A total of 223,347 American Express cards have been issued since the launch in November 2009. The total number of outstanding credit cards amounted to 116,589 (of which 109,539 were American Express Cards)
- Outstanding number of Retail Banking clients totalled 1,378,473 up 15.8% y-o-y and by 3.1% (41,844 clients) q-o-q

- Acquired 1,145 new clients in the Solo business line, the Bank's mass affluent sub-brand, in the first nine months of 2014. As of 30 September 2014, the number of Solo clients reached 7,513
- Increased the number of corporate clients using the Bank's payroll services from 3,758 as of 30 September 2013 to 4,201 as of 30 September 2014. As of the period end, the number of individual clients serviced through the corporate payroll programmes administered by the Bank amounted to 236,645, compared to 229,273 as of 30 September 2013
- Increased Point of Sales (POS) footprint: as of 30 September 2014, 312 desks at 1,035 contracted merchants, up from 252 desks and 649 merchants as of 30 September 2013. GEL 101.9 million POS loans were issued in 9 months 2014, compared to GEL 66.9 million during the same period last year. POS loans outstanding amounted to GEL 67.0 million, up 52.0% over a one year period
- POS terminals outstanding reached 5,979, up 31.7% y-o-y. The volume of transactions through the Bank's POS terminals grew 39.4% y-o-y to GEL 421.5 million, while the number of POS transactions increased by 5.8 million y-o-y from 4.9 million in 9 months 2013 to 10.7 million in 9 months 2014
- Added a new product on the market, whereby a client can activate a pre-approved overdraft limit upon making a purchase through any Bank of Georgia POS terminal. Since the launch in March 2013, 8,556 pre-approved POS loans were issued, worth GEL 6.3 million
- Consumer loan originations of GEL 462.6 million resulted in consumer loans outstanding totalling GEL 488.8 million as of 30 September 2014, up 17.2% y-o-y and up 16.9% year-to-date
- Micro loan originations of GEL 348.1 million resulted in micro loans outstanding totalling GEL 392.7 million as of 30 September 2014, up 22.8% y-o-y and up 16.4% year-to-date
- SME loan originations of GEL 186.6 million resulted in SME loans outstanding totalling GEL 202.2 million as of 30 September 2014, up 45.4% y-o-y and up 26.6% year-to-date
- Mortgage loans originations of GEL 213.1 million resulted in mortgage loans outstanding of GEL 522.5 million as of 30 September 2014, up 30.0% y-o-y and 18.4% year-to-date
- RB loan yield amounted to 17.2% in Q3 2014 (19.6% in Q3 2013) and RB deposit cost declined to 3.7% in Q3 2014 (4.9% in Q3 2013)

Corporate Banking (CB)

GEL thousands, unless otherwise noted	As at and for nine months ended 30 Sep 2014	30 Sep 2013	Change Y-O-Y
INCOME STATEMENT HIGHLIGHTS			
Net interest income	74,579	76,244	-2.2%
Net fee and commission income	18,211	20,847	-12.6%
Net gain from foreign currencies	17,945	18,435	-2.7%
Other operating non-interest income	2,245	3,874	-42.0%
Revenue	**112,980**	**119,400**	**-5.4%**
Operating expenses	(36,363)	(31,777)	14.4%
Operating income before cost of credit risk	**76,617**	**87,623**	**-12.6%**
Cost of credit risk	(30,748)	(23,151)	32.8%
Net non-recurring items	(2,568)	(1,340)	91.6%
Profit before income tax expense	**43,301**	**63,132**	**-31.4%**
Income tax expense	(5,258)	(7,918)	-33.6%
Profit	**38,043**	**55,214**	**-31.1%**
BALANCE SHEET HIGHLIGHTS			
Letters of credit and guarantees, standalone*	509,434	424,604	20.0%
Net loans, standalone, currency blended	1,870,102	1,674,763	11.7%
Net loans, standalone, GEL	253,734	289,927	-12.5%
Net loans, standalone, FC	1,616,368	1,384,836	16.7%
Client deposits, standalone, currency blended	1,002,892	1,190,121	-15.7%
Client deposits, standalone, GEL	540,363	555,260	-2.7%
Client deposits, standalone, FC	462,529	634,861	-27.1%
Time deposits, standalone, currency blended	275,429	331,273	-16.9%
Time deposits, standalone, GEL	135,658	69,292	95.8%
Time deposits, standalone, FC	139,771	261,981	-46.6%
Current accounts and demand deposits, standalone, currency blended	727,463	858,848	-15.3%
Current accounts and demand deposits, standalone, GEL	404,705	485,968	-16.7%
Current accounts and demand deposits, standalone, FC	322,758	372,880	-13.4%
RATIOS			
Net interest margin, currency blended	*4.4%*	*5.0%*	
Loan yield, currency blended	*10.7%*	*12.7%*	
Loan yield, GEL	*10.6%*	*12.4%*	
Loan yield, FC	*10.7%*	*12.8%*	
Cost of deposits, currency blended	*2.9%*	*5.0%*	
Cost of deposits, GEL	*3.3%*	*5.3%*	
Cost of deposits, FC	*2.6%*	*4.6%*	
Cost of time deposits, currency blended	*6.5%*	*7.4%*	
Cost of time deposits, GEL	*8.1%*	*9.0%*	
Cost of time deposits, FC	*5.8%*	*7.1%*	
Current accounts and demand deposits, currency blended	*1.6%*	*4.2%*	
Current accounts and demand deposits, GEL	*2.2%*	*5.0%*	
Current accounts and demand deposits, FC	*0.8%*	*2.5%*	
Cost / income ratio	*32.2%*	*26.6%*	

*Off-balance sheet items

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

Revenue for the Corporate Banking segment decreased 5.4% to GEL 113.0 million as a result of a 2.2% y-o-y decline of net interest income to GEL 74.6 million and a 12.6% decrease in net fee and commission income to GEL 18.2 million. Net gain from foreign currencies also decreased 2.7% to GEL 17.9 million. The decline in all the revenue items for the segment was driven by competitive pressures and high liquidity environment in the Georgian banking sector, which resulted in downward pressure on the NIM.

The decline in net interest income reflects the declining NIM which more than offset the 11.7% y-o-y growth in the Corporate Banking loan book that the Bank was able to achieve, defending its market share in a difficult environment. The loan book growth was largely at the end of Q3 2014 and its effects on interest income has not been fully reflected in Q3 2014 results. In addition, the declining Corporate Banking Loan Yields and the allocated excess liquidity put a downward pressure on the NIM, which decreased to 4.4% in 9M 2014 from 5.0% in 9M 2013, despite the 210 bps decline in Cost of Client Deposits that compare to the 200 bps decline of Loan Yield during the same period.

Corporate Banking cost of credit risk rose to GEL 30.7 million up 32.8% y-o-y, which reflected the default of a borrower in the agricultural sector in Q1 2014 as well as slight negative impact of the new provisioning methodology.

Highlights

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

Investment Management

Investment Management consists of Bank of Georgia Wealth Management and the newly rebranded brokerage arm of the Bank, Galt & Taggart. Galt & Taggart brings under one brand corporate advisory, private equity and brokerage services. Bank of Georgia Wealth Management provides private banking services to high-net-worth individuals and offers investment management products internationally through representative offices in London, Budapest, Istanbul and Tel Aviv.

Wealth Management financial highlights

GEL thousands, unless otherwise noted	**As at and for nine months ended 30 Sep 2014**	**30 Sep 2013**	**Change Y-O-Y**
BALANCE SHEET HIGHLIGHTS			
Client deposits, standalone, currency blended	766,938	614,611	24.8%
Client deposits, standalone, GEL	24,779	24,426	1.4%
Client deposits, standalone, FC	742,159	590,185	25.8%
Time deposits, standalone, currency blended	558,849	473,132	18.1%
Time deposits, standalone, GEL	16,492	16,779	-1.7%
Time deposits, standalone, FC	542,357	456,353	18.8%
Current accounts and demand deposits, standalone, currency blended	208,089	141,479	47.1%
Current accounts and demand deposits, standalone, GEL	8,287	7,647	8.4%
Current accounts and demand deposits, standalone, FC	199,802	133,832	49.3%
RATIOS			
Cost of deposits, currency blended	*6.2%*	*8.1%*	
Cost of deposits, GEL	*6.4%*	*7.6%*	
Cost of deposits, FC	*6.2%*	*8.1%*	
Cost of time deposits, currency blended	*7.6%*	*9.4%*	
Cost of time deposits, GEL	*9.1%*	*10.7%*	
Cost of time deposits, FC	*7.6%*	*9.4%*	
Current accounts and demand deposits, currency blended	*2.4%*	*4.0%*	
Current accounts and demand deposits, GEL	*1.4%*	*2.6%*	
Current accounts and demand deposits, FC	*2.5%*	*4.0%*	

Wealth Management deposits increased 24.8% y-o-y to GEL 766.9 million on the back of a 190 bps decline in Cost of Client deposits to 6.2% for the Investment Management segment. The growth in deposits was fuelled by strong growth of current accounts and demand deposits, which increased 47.1% y-o-y in spite of a 160 bps y-o-y decrease in cost of current accounts and demand deposits. The AUM of Investment management segment, which includes WM client deposits, Galt & Taggart brokerage client assets and Aldagi pension scheme assets, increased 20.4% y-o-y to GEL 932.7 million.

Galt & Taggart had a particularly strong first nine months of 2014 following high bond issuance activity on the local market, led by Galt & Taggart, as well as a successful M&A transaction during the year. As a result, net fee and commission income of Investment Management business increased to GEL 8.5 million in 9M 2014 from just GEL 1.0 in 9M 2013.

Highlights

- Rebranded BG Capital to Galt and Taggart bringing corporate advisory, private equity and brokerage services with consistent branding under one roof
- Galt & Taggart hosted first investor conference dedicated to the equity and bond market development in the region. The conference brought together 60 institutional investors and analysts and more than 100 one-on-one meetings were held with Georgian and Azeri companies
- As of 30 September 2014, the amount of the Bank's CDs issued to Investment Management clients reached GEL 376.2 million
- Successfully placed US$8 million, EUR 8 million and GBP 5 million Euroclearable CDs
- The Investment Management business served over 1,400 clients from 70 countries as of 30 September 2014. Client funds attracted by Investment Management have grown at a compound annual growth rate (CAGR) of 41.7% over the last five year period, to GEL 766.9 million as of 30 September 2014

- Since its launch in June 2012, Bank of Georgia Research has initiated research coverage of the Georgian economy and Azeri economies, including a report analyzing the impact of Russia-Ukraine standoff on the Georgian economy, the Georgian Retail Real Estate Market, the Georgian Wine Sector, Georgian Agricultural Sector, Georgian Electricity Sector, Georgian Oil and Gas Corporation, Georgian Railway, and has issued notes on Georgian State Budget and the Tourism Sector as of the date of this report
- Net fee and commission income generated by IM reached GEL 8.5 million in 9M 2014 (GEL 1.0 million in 9M 2013)
- Within the Hydro Private Equity fund, actively moving forward with the detailed feasibility study on the first hydropower plant in Georgia with the help of several specialised contractors. Preparatory works have started in the Spring this year and are scheduled to be completed late Fall/early Winter of 2014. The feasibility study is carried out and financed jointly by Bank of Georgia Group and rpGlobal – the Bank's Austrian partners in Hydro development (total cost of feasibility is approximately US$1.3 million)

Healthcare Business

On 1 August 2014, the Group announced the split of Aldagi into two separate business lines, and the respective rebranding of the new business entities. One business line is a pure play healthcare business, that provides healthcare services (through JSC Evex Medical Corporation, (Evex)) and health insurance products (through JSC Insurance Company Imedi L (Imedi L) in Georgia. The Group expects to establish a new holding company JSC Georgia Healthcare Group (GHG) which will ultimately own the healthcare business. The second business line is a P&C insurance business through JSC Insurance Company Aldagi that continues to provide life and non-life insurance products and services in Georgia, retaining the brand name of Aldagi. P&C insurance business is reported separately on page 27.

Income Statement

	Healthcare Services			**Health Insurance**			**Eliminations**		**Total**		
	Nine months ended			**Nine months ended**			**Nine months ended**		**Nine months ended**		
GEL thousands, unless otherwise noted	**30 Sep 2014**	**30 Sep 2013**	**Change Y-O-Y**	**30 Sep 2014**	**30 Sep 2013**	**Change Y-O-Y**	**30 Sep 2014**	**30 Sep 2013**	**30 Sep 2014**	**30 Sep 2013**	**Change Y-O-Y**
Net interest income (expenses)	(9,487)	(9,350)	1.5%	261	2,096	-87.5%	-	-	(9,226)	(7,254)	27.2%
Net fee and commission income (expense)	(126)	(235)	-46.4%	(3)	6	NMF	-	-	(129)	(229)	-43.7%
Net insurance revenue, of which:	-	-	-	8,900	13,437	-33.8%	6,217	9,157	15,117	22,594	-33.1%
Net insurance premiums earned	-	-	-	*59,171*	*77,472*	*-23.6%*	*(283)*	*(222)*	*58,888*	*77,250*	*-23.8%*
Net insurance claims incurred	-	-	-	*(50,271)*	*(64,035)*	*-21.5%*	*6,500*	*9,379*	*(43,771)*	*(54,656)*	*-19.9%*
Net healthcare services revenue, of which:	38,760	23,394	65.7%	-	-	-	(6,500)	(9,379)	32,260	14,015	130.2%
Healthcare services revenue	*102,943*	*67,298*	*53.0%*	-	-	-	*(17,262)*	*(25,552)*	*85,681*	*41,746*	*105.2%*
Cost of healthcare services	*(64,183)*	*(43,904)*	*46.2%*	-	-	-	*10,762*	*16,173*	*(53,421)*	*(27,731)*	*92.6%*
Net loss from foreign currencies	(1,677)	(829)	102.3%	150	(77)	NMF	-	-	(1,527)	(906)	68.5%
Other operating non-interest income	316	1,314	-76.0%	83	63	31.7%	-	(6)	399	1,371	-70.9%
Revenue	**27,786**	**14,294**	**94.4%**	**9,391**	**15,525**	**-39.5%**	**(283)**	**(228)**	**36,894**	**29,591**	**24.7%**
Operating expenses	(16,579)	(9,056)	83.1%	(5,901)	(6,748)	-12.6%	283	222	(22,197)	(15,582)	42.5%
Operating income before cost of credit risk	**11,207**	**5,238**	**114.0%**	**3,490**	**8,777**	**-60.2%**	**-**	**(6)**	**14,697**	**14,009**	**4.9%**
Cost of credit risk	(1,108)	(659)	68.1%	(352)	(402)	-12.4%	-	-	(1,460)	(1,061)	37.6%
Net non-recurring items	1,375	-	-	-	-	-	-	-	1,375	-	-
Profit before income tax expense	**11,474**	**4,579**	**150.6%**	**3,138**	**8,375**	**-62.5%**	**-**	**(6)**	**14,612**	**12,948**	**12.9%**
Income tax expense	(889)	(378)	135.2%	(482)	(1,295)	-62.8%	-	-	(1,371)	(1,673)	-18.1%
Profit	**10,585**	**4,201**	**152.0%**	**2,656**	**7,080**	**-62.5%**	**-**	**(6)**	**13,241**	**11,275**	**17.4%**
Cost / income ratio	*59.7%*	*63.4%*		*62.8%*	*43.5%*				*60.2%*	*52.7%*	

Healthcare Services

In line with its aim to strengthen its footprint in Tbilisi, the Group's healthcare business successfully completed acquisitions of seven hospitals over the past 12 month period, bringing the number of total healthcare facilities to 38 and hospital beds to 2,140, up from 32 and 1,329 as of 31 December 2013, respectively. In the first nine months of 2014, the revenue of the Group's healthcare business, which includes revenue from healthcare services and health insurance businesses, increased by 24.7% y-o-y to GEL 36.9 million. The healthcare business benefited from the introduction of the UHC by the Government, as a result of which any Georgian citizen is eligible for the new Government-funded basic health coverage. Additionally, approximately 0.5 million people hold private insurance coverage instead of Government funded basic health package. Since the initiation of this healthcare reform in 2012, Government expenditures on healthcare have increased by 74% to GEL 634* million and are expected to be further increased in 2015. Benefiting from the growth of healthcare expenditures in the country, revenue for healthcare services increased by 53.0% to GEL 102.9 million in 9M 2014, with the cost of healthcare services growing at a slower rate of 46.2%, primarily due to cost efficiencies achieved in the process of the on-going integration of new acquisitions that include the effect the centralisation of back office functions and procurement policy. As a result, net healthcare revenue increased by 65.7% year-on-year to GEL 38.8 million.

Health Insurance

The UHC entails the consolidation of the administration of the Government funded general coverage healthcare programmes under one umbrella, including those existing programmes previously administered by private insurance companies. Therefore, as anticipated, net insurance premiums earned decreased 23.6% y-o-y to GEL 59.2 million and consequently, net insurance claims incurred decreased 21.5% y-o-y to GEL 50.3 million.

**Source: Ministry of Labour, Health and Social Affairs*

The discussion below refers to the healthcare services and health insurance business standalone numbers.

Healthcare Business standalone results

For the purposes of the results discussion below, healthcare business refers to the Group's pure-play healthcare businesses which includes healthcare services and health insurance services. The results are based on management accounts and refer to standalone numbers.

Income Statement

	Nine months ended										
	30 Sep 2014				30 Sep 2013				Change, Y-o-Y		
GEL thousands, unless otherwise noted	**Healthcare Services**	**Health Insurance**	**Eliminations**	**Consolidated Healthcare Business**	**Healthcare Services**	**Health Insurance**	**Eliminations**	**Consolidated Healthcare Business**	**Healthcare Services**	**Health Insurance**	**Consolidated Healthcare Business**
Revenue	**98,220**	**59,171**	**(17,481)**	**139,910**	**62,775**	**77,472**	**(25,805)**	**114,442**	**56.5%**	**-23.6%**	**22.3%**
COGS, insurance claims expense	**(55,815)**	**(50,271)**	**17,262**	**(88,824)**	**(36,786)**	**(64,035)**	**25,552**	**(75,269)**	**51.7%**	**-21.5%**	**18.0%**
Gross profit	**42,405**	**8,900**	**(219)**	**51,086**	**25,989**	**13,437**	**(253)**	**39,173**	**63.2%**	**-33.8%**	**30.4%**
Selling, general and administrative	(17,229)	(5,784)	219	(22,794)	(9,890)	(6,561)	253	(16,198)	74.2%	-11.8%	40.7%
Other operating income	1,318	117	-	1,435	1,507	41	-	1,548	-12.5%	185.4%	-7.3%
EBITDA	**26,494**	**3,233**	**-**	**29,727**	**17,606**	**6,917**	**-**	**24,523**	**50.5%**	**-53.3%**	**21.2%**
Depreciation	(5,185)	(475)	-	(5,660)	(3,766)	(442)	-	(4,208)	37.7%	7.5%	34.5%
Net interest income (expense)	(9,505)	261	-	(9,244)	(9,350)	2,096	-	(7,254)	1.7%	-87.5%	27.4%
(Losses) gains on currency exchange	(2,654)	150	-	(2,504)	(829)	(77)	-	(906)	220.1%	-294.8%	176.4%
Net non-recurring items	1,369	(31)	-	1,338	912	(119)	-	793	50.1%	-73.9%	68.7%
Profit before income tax	**10,519**	**3,138**	**-**	**13,657**	**4,573**	**8,375**	**-**	**12,948**	**130.0%**	**-62.5%**	**5.5%**
Income tax expense	(855)	(482)	-	(1,337)	(378)	(1,295)	-	(1,673)	126.2%	-62.8%	-20.1%
Profit	**9,664**	**2,656**	**-**	**12,320**	**4,195**	**7,080**	**-**	**11,275**	**130.4%**	**-62.5%**	**9.3%**
Attributable to:											
- shareholders of the Company	7,444	2,656	-	10,100	962	7,080	-	8,042			
- minority interest	2,220	-	-	2,220	3,233	-	-	3,233			

Note: the table above does not include intercompany eliminations on the Group consolidated level

Revenue by business lines

GEL thousands, unless otherwise noted	Nine months ended 30 Sep 2014	30 Sep 2013	Change, Y-o-Y
Healthcare Business revenue	**139,910**	**114,442**	**22.3%**
Revenue from healthcare services rendered, of which:	***98,220***	***62,775***	***56.5%***
Referral and specialty hospitals	82,515	41,960	96.7%
Community hospitals	9,388	8,534	10.0%
Ambulatory clinics	3,455	3,600	-4.0%
Ambulance and rural primary care	2,862	8,681	-67.0%
Revenue from health insurance, of which:	***59,171***	***77,472***	**-23.6%**
Government funded health insurance products	27,909	46,390	-39.8%
Private health insurance products	31,262	31,082	0.6%
Intercompany eliminations	***(17,481)***	***(25,805)***	***-32.3%***

Healthcare business revenue increased 22.3% y-o-y to GEL 139.9 million in 9M 2014. The increase was driven by the strong performance of the healthcare service business that posted revenue growth of 56.5% y-o-y to GEL 98.2 million in 9M 2014. Since the end of 2013, Evex has acquired seven hospitals enabling it to increase its healthcare revenues and tap new market segments. As of 30 September 2014, Evex was the largest healthcare provider in Georgia, with 14 referral (multi-profile or specialty) hospitals and 19 community hospitals, which have a total of 2,140 beds and five ambulatory clinics providing outpatient services.

Revenue from the referral hospitals, which are the main source of revenue for the healthcare services business, grew by 96.7% y-o-y, driven by both organic growth and acquisitions. The 10.0% y-o-y growth of revenue from the community hospitals was the result of organic growth alone and was driven by the introduction of the UHC, which made outpatient diagnostic services more accessible and affordable for the population of Georgia. Additionally, recent initiative of the Ministry of Health, Labour and Social Affairs extended the prescription requirement to over a 55% of medicines registered in Georgia, effective 1 September 2014 (no more than 2% of medicines registered in Georgia required a prescription before this date*). This initiative is expected to have a favourable impact on the volume of outpatient visits to the clinics, as many medicines were available over-the-counter in Georgia before the introduction of this initiative and given the high level of self-treatment by patients in Georgia, outpatient visit rates were very low compared to other countries. Additionally, prior to the reporting period, the Group mainly provided outpatient services to its Imedi L health insurance patients in Tbilisi at its own ambulatory clinics (i.e. the Evex ambulatory clinics). During the reporting period, the list of provider ambulatory clinics that are eligible to treat Imedi L's health insurance clients in Tbilisi expanded to include other (non-Evex) clinics, which placed a downward pressure on ambulatory service revenue. The 67.0% y-o-y decline in revenue from ambulance and rural primary care services was due to the full handover of the administration function related to these services to the Government as part of universal healthcare reform. Management expects the handover to improve Evex's operating margins due to the very low profitability of ambulance and rural primary care services.

The Group's health insurance revenue decreased by 23.6% y-o-y to GEL 59.2 million, as a result of lower health insurance premiums earned from Government insurance programmes due to the UHC described above. The handover of the privately administered government-funded health insurance programme to the government is expected to further reduce the Group's health insurance revenues.

**Source: Ministry of Labour, Health and Social Affairs*

Revenue from healthcare services by sources of payment

GEL thousands, unless otherwise noted	Nine months ended 30 Sep 2014	30 Sep 2013	Change Y-o-Y
Private insurance companies, *of which:*	26,326	35,776	-26.4%
Imedi L health insurance	*17,262*	*25,552*	-32.4%
Government-funded healthcare programmes	50,081	13,321	276.0%
Out-of-pocket payments by patients	23,757	14,852	60.0%
Impairment of revenues from healthcare services rendered	(1,944)	(1,174)	65.6%
Total	**98,220**	**62,775**	**56.5%**

The composition of revenue from healthcare services by source of payment has also been affected by the recent healthcare reform. Revenue from the Government surged to GEL 50.1 million for 9M 2014, up 276.0% y-o-y, which was partially offset by an anticipated 26.4% y-o-y decline in revenues from private insurance companies to GEL 26.3 million in 9M 2014. Notably, the out-of-pocket payments by patients increased 60.0% to GEL 23.8 million. The Government-funded basic coverage programme places coverage limits on medical treatments - any charges in excess of the limit must be covered by patients out-of-pocket.

As expected, the healthcare reform resulted in a decrease in health claims expenditure within the Group's healthcare business by 32.4% to GEL 17.3 million. This was due to the handover of the privately administered government-funded health insurance programme to the Government, which was completed on 1 September 2014.

COGS and claims expenses

GEL thousands, unless otherwise noted	Nine months ended 30 Sep 2014	30 Sep 2013	Change Y-o-Y
Gross profit	**51,086**	**39,173**	**30.4%**
Healthcare Business COGS and claims expense	**88,824**	**75,269**	**18.0%**
COGS for healthcare services rendered, of which:	***55,815***	***36,786***	***51.7%***
Direct salary	38,420	24,686	*55.6%*
Materials, including medicines and medical disposables	12,582	8,224	*53.0%*
Utilities and other expenses	4,813	3,876	*24.2%*
Health insurance claims expense	***50,271***	***64,035***	***-21.5%***
Intercompany eliminations	***(17,262)***	***(25,552)***	***-32.4%***

In 9M 2014, gross profit of the Group's healthcare business increased by 30.4% y-o-y to GEL 51.1 million, in line with the 22.3% increase in revenue during the same period, maintaining the gross margin for the healthcare business (which is defined as gross profit divided by revenue) at 36.5%, predominantly as result of the improved gross margin of the healthcare services driven by increased utilisation of healthcare services following the recent reforms described above. The handover of the margin-dilutive ambulance and rural primary health care service to the Government also had a positive effect on margins.

In comparison to the 56.5% y-o-y growth in revenue from healthcare services rendered, cost of goods sold increased by 51.7% y-o-y, with more than half of this growth coming from the increase in payroll costs, primarily attributed to the recent acquisitions. Since 30 September 2013 headcount increased by 1,535 employees and reached 8,026 full-time employees by 30 September 2014. Health insurance claims expense decreased 21.5% to GEL 50.3 million in line with the decline of health insurance revenue.

SG&A expenses

GEL thousands, unless otherwise noted	Nine months ended 30 Sep 2014	30 Sep 2013	Change Y-o-Y
Healthcare Business SG&A expenses, of which:	**22,794**	**16,198**	**40.7%**
Salaries and other employee benefits	14,478	10,146	42.7%
Rent	1,268	980	29.4%
Impairment Charge	1,673	1,813	-7.7%
Marketing and advertising	805	101	697.0%
Stationery and office supplies	1,126	945	19.2%
Communications	638	468	36.3%
Other	2,806	1,745	60.8%

Although the management continues to focus on controlling costs, the healthcare businesses SG&A expenses increased 40.7% to GEL 22.8 million as a result of the recent reorganisation of the healthcare segment and recent acquisitions. The increase was primarily driven by salaries and other employee benefits, which grew 42.7% to GEL 14.5 million on the back of the increased headcount.

EBITDA; depreciation; net-interest income and profit for the period

GEL thousands, unless otherwise noted	Nine months ended 30 Sep 2014	30 Sep 2013	Change, Y-o-Y
Healthcare Business EBITDA	**29,727**	**24,523**	**21.2%**
Depreciation	(5,660)	(4,208)	34.5%
Net interest expense	(9,244)	(7,254)	27.4%
Loss on currency exchange	(2,504)	(906)	176.4%
Net non-recurring items	1,338	793	68.7%
Healthcare Business profit before income tax expense	**13,657**	**12,948**	**5.5%**
Income tax expense	(1,337)	(1,673)	-20.1%
Healthcare Business profit	**12,320**	**11,275**	**9.3%**

The Group's Healthcare Business EBITDA reached GEL 29.7 million, up 21.2% y-o-y. Net interest expense of the healthcare business grew by 27.4% y-o-y as a result of a 33.4% increase in borrowed funds. GEL 1.5 million or 34.5% y-o-y increase in depreciation costs, driven by the new acquisitions and a GEL 1.6 million or 176.4% y-o-y increase in foreign exchange related losses in 9M 2014, resulted in record 9M 2014 net income of GEL 12.3 million. By the end of Q3 2014, nearly half of the borrowings were converted to local currency which made up the majority of borrowings by the end of the period, thus reducing exposure to foreign currency exchange risk in the future.

As a result of the foregoing, net income of the Group's Healthcare Business stood at GEL 12.3 million, increasing by 9.3% y-o-y up from GEL 11.3 million in 9M 2013.

Selected balance sheet items

GEL thousands, unless otherwise noted	Nine months ended 30 Sep 2014	Year ended 31 Dec	Change YTD
Total assets, of which:	**365,441**	**276,521**	**32.2%**
Premises and equipment, net	249,229	173,767	43.4%
Total liabilities, of which:	**222,808**	**176,266**	**26.4%**
Borrowed funds	140,413	105,242	33.4%
Total shareholders' equity, of which:	**142,633**	**100,255**	**42.3%**

The Group's healthcare business balance sheet increased substantially over the last year with assets growing to GEL 365.4 million as of 30 September 2014, up 32.2% from GEL 276.5 million as of 31 December 2013. In 9M 2014, the growth of total assets (up GEL 88.9 million y-o-y) was largely driven by a GEL 75.5 million, or 43.4%, increase in the property and equipment of the Group's healthcare business, reflecting the acquisition of new hospitals at the end of 2013 and during the first nine months of 2014. The Group owns 37 out of the 38 healthcare facilities it operates, which are fully reflected on the balance sheet. The Group operates the Poti community hospital under a management contract.

Highlights

- The Group's market share in healthcare services increased to 22.5% as of 30 September 2014 compared to 14.3% as of 31 December 2013, based on hospital beds
- The Group's market share stood at 37.0% in health insurance
- The Group's healthcare subsidiary Evex completed a number of hospital acquisitions, in line with the Group's strategy to scale up its healthcare business in the capital city. Seven healthcare facilities were acquired since the end of 2013 and a total of 850 beds were added as a result of these acquisitions bringing the total number of beds to 2,140
- Launched Teaching and Research Center in Kutaisi to continue to support internal skills development and human resource capacity at its healthcare facilities

P&C Insurance

The Group's P&C insurance business is Georgia's leading provider with a market share of 36.8% as of 30 June 2014, offering of the widest range of insurance products for corporate and retail clients, including motor third party liability and own damage, commercial property, contractor's all liability, general third party liability, travel, household property, cargo, professional indemnity, MPA, freight forwarders liability, guarantees, aviation hull, containers', employers liability, financial risks, agro, product liability, marine hull, machinery breakdown, etc.

GEL thousands, unless otherwise noted	**Nine months ended** 30 Sep 2014	30 Sep 2013	**Change** Y-O-Y
Net interest income (expenses)	248	(138)	NMF
Net fee and commission income	241	172	40.1%
Net insurance revenue, of which:	12,935	14,402	-10.2%
Net insurance premiums earned	*21,371*	*20,608*	*3.7%*
Net insurance claims incurred	*(8,436)*	*(6,206)*	*35.9%*
Net loss from foreign currencies	60	(120)	NMF
Other operating non-interest income	397	375	5.9%
Revenue	**13,881**	**14,691**	**-5.5%**
Operating expenses	(6,506)	(5,835)	11.5%
Operating income before cost of credit risk	**7,375**	**8,856**	**-16.7%**
Cost of credit risk	(371)	(404)	-8.2%
Profit before Income tax expense	**7,004**	**8,452**	**-17.1%**
Income tax expense	(1,101)	(1,395)	-21.1%
Profit	**5,903**	**7,057**	**-16.4%**
Cost / income ratio	*46.9%*	*39.7%*	*7.2%*

Net insurance premiums earned increased 3.7% y-o-y to GEL 21.4 million driven predominantly by a pick-up in motor insurance underwriting. This was offset however by a 35.9% increase in net insurance claims incurred, as a result of a single large property and general third liability claim following a major fire incident. As a result, revenue decreased 5.5% to GEL 13.9 million. Operating expenses increased 11.5% to GEL 6.5 million partly as a result of the above-mentioned split of the insurance and healthcare businesses. Profit for the period for P&C insurance sector decreased 16.4% to GEL 5.9 million.

P&C Insurance market share stood at 36.8% as of 30 June 2014 based on gross insurance premium revenue as reported by the Insurance State Supervision Service of Georgia.

Affordable Housing

GEL thousands, unless otherwise noted	Nine months ended 30 Sep 2014			30 Sep 2013			Change, Y-O-Y		
	m²	**Mortgages**	**Total**	**m²**	**Mortgages**	**Total**	**m²**	**Mortgages**	**Total**
Net interest (expenses) income	(483)	1,180	697	927	683	1,610	NMF	72.8%	-56.7%
Net fee and commission expenses	-	-	-	(27)	-	(27)	-100.0%	-	-100.0%
Net loss from foreign currencies	(427)	-	(427)	(37)	-	(37)	NMF	-	NMF
Other operating non-interest income	11,575	-	11,575	8,893	-	8,893	30.2%	-	30.2%
Revenue	**10,665**	**1,180**	**11,845**	**9,756**	**683**	**10,439**	**9.3%**	**72.8%**	**13.5%**
Operating expenses	(4,046)	-	(4,046)	(1,625)	-	(1,625)	149.0%	-	149.0%
Operating income before cost of credit risk	**6,619**	**1,180**	**7,799**	**8,131**	**683**	**8,814**	**-18.6%**	**72.8%**	**-11.5%**
Cost of credit risk	(66)	(13)	(79)	(185)	230	45	-64.3%	NMF	NMF
Net non-recurring items	18	-	18	(784)	-	(784)	NMF	-	NMF
Profit before income tax expense	**6,571**	**1,167**	**7,738**	**7,162**	**913**	**8,075**	**-8.3%**	**27.8%**	**-4.2%**
Income tax expense	(985)	-	(985)	(1,074)	-	(1,074)	-8.3%	-	-8.3%
Profit	**5,586**	**1,167**	**6,753**	**6,088**	**913**	**7,001**	**-8.2%**	**27.8%**	**-3.5%**

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

Other operating non-interest income reached GEL 11.6 million as a result of recognition of major part of revenue from its largest project (the second project on Tamarashvili Street) following handover of apartments in completed blocks. As a result, total revenue reached 11.8 million, up 13.5% y-o-y. Operating expenses increased from GEL 1.6 million in 9M 2013 to GEL 4.0 million in 9M 2014, predominantly due to increased marketing activity and expansion of m² distribution network. As a result, profit for the period was GEL 6.8 million, down 3.5% from GEL 7.0 million in 9M 2013.

Highlights

- Completed construction of its largest project (second project) of a 522 apartment building with a total buildable area of 63,247 square meters. As of the date of this report, 512 or 98% of apartments had been sold. The total sales from this project amounted to US$46.0 million. The project was completed in June 2014, four months ahead of the completion deadline, with an estimated IRR of 40%. Strong sales performance enabled the company to prepay FMO debt facility in full in December 2013
- In December 2013, m² Real Estate launched its third and fourth projects: Kazbegi Avenue (total buildable area of 33,574 square meters) and Nutsubidze Street (total buildable area of 26,014 square meters). As the date of this report, m² sold 242 apartment or 82% of the total number of units in the Kazbegi Avenue project and 137 apartments or 62% of the total number of units in the Nutsubidze Street project. Sales totalled US$21.4 million and US$10.6 million as of the date of this report, respectively, of which mortgage loans sold amounted to US$4.2 million and US$3.5 million, respectively
- In July 2014, m² Real Estate launched its fifth project: Tamarashvili Avenue (total buildable area of 29,303 square meters). m² Real Estate sold 108 apartments or 40% of the total number of units. Sales amounted to US$9.5 million, out of which US$5.1 million were sold as mortgages as of the date of this report
- In September 2014, launched its sixth project within m² Real Estate's new low-cost apartment initiative, which will offer clients unprecedented affordable price of as low as US$29,000 for refurbished studio apartments. The project: Moscow Avenue (total buildable area of 22,220 square meters). As of the date of this report, m² sold 78 apartments or 33% of the total number of units. Sales amounted to US$2.8 million, out of which US$2.4 million were sold as mortgages
- Number of mortgages sold in all m² Real Estate projects as of the date of this report totalled 449 totalled GEL 47.0 million

Non-Core businesses

The Group's non-core businesses accounted for 6.1% of total assets and 7.8% of total revenue in 9M 2014 and predominantly comprised Joint Stock Company Belarusky Narodny Bank (BNB), our Belarus banking operation, and Liberty Consumer, a Georgia-focused investment company in which the Bank holds a 68% stake. In order to focus on its strategic businesses, the Bank has announced its intention to exit from its non-core operations. As of 30 September 2014, the Bank still held Teliani Valley, a Georgian wine producer, through Liberty Consumer.

BNB

	As at and for nine months ended		**Change**
GEL thousands, unless otherwise noted	**30 Sep 2014**	**30 Sep 2013**	**Y-O-Y**
Net interest income	16,151	13,261	21.8%
Net fee and commission income	6,783	4,517	50.2%
Net gain from foreign currencies	5,081	3,402	49.4%
Other operating non-interest income	364	51	NMF
Revenue	**28,379**	**21,231**	**33.7%**
Operating expenses	(13,073)	(10,401)	25.7%
Operating income before cost of credit risk	**15,306**	**10,830**	**41.3%**
Cost of credit risk	(2,141)	(1,372)	56.0%
Net non-recurring items	(2,408)	(1,087)	121.5%
Profit before income tax expense	**10,757**	**8,371**	**28.5%**
Income tax expense	(2,794)	(2,093)	33.5%
Profit	**7,963**	**6,278**	**26.8%**
Cost / income ratio	*46.1%*	*49.0%*	
ROAE	*15.6%*	*17.2%*	
Net loans	215,788	185,860	16.1%
Total assets	346,025	272,565	27.0%
Client deposits	180,310	126,579	42.4%
Total liabilities	263,567	214,075	23.1%

Through BNB, the Bank provides retail and corporate banking services in Belarus. BNB posted another excellent results in 9M 2013, reaching a record revenue at GEL 28.4 million up 33.7%. The strong revenue growth was driven by strong growth from all the revenue items. Net interest income increased 21.8% to GEL 16.2 million supported by strong loan book growth. Net fee and commission income and net gain from foreign currencies increased 50.2% and 49.4%, respectively. Operating expenses grew at a slower pace than revenue, increasing 25.7% to GEL 13.1 million, resulting in a strong operating leverage of 8.0 percentage points. The cost of credit risk increased from GEL 1.4 million to GEL 2.1 million as a result of a sharp growth in net loans, which increased by 16.1% to GEL 215.8 million.

As a result of the foregoing, the profit for the period increased by 26.8% to GEL 8.0 million.

Highlights

- Received funding totalling US$10 million from IFC and Triple Jump, a fund management company investing in micro and small and medium size enterprises in developing countries
- Added 9,478 cards bringing total number of cards to more than 26,000 as of 30 September 2014
- Introduced a credit card with a grace period, which is still a novelty product in Belarus

SELECTED FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

GEL thousands, unless otherwise noted	Nine months ended 30 Sep 2014	30 Sep 2013	Change Y-O-Y
Loans to customers	393,188	389,493	0.9%
Investment securities	28,401	27,223	4.3%
Amounts due from credit institutions	5,263	6,678	-21.2%
Finance lease receivables	6,378	4,896	30.3%
Interest income	**433,230**	**428,290**	**1.2%**
Amounts due to customers	(99,749)	(123,404)	-19.2%
Amounts due to credit institutions, of which:	(46,734)	(49,650)	-5.9%
Subordinated debt	*(8,654)*	*(16,938)*	*-48.9%*
Loans and deposits from other banks	*(38,080)*	*(32,712)*	*16.4%*
Debt securities issued, of which:	(39,977)	(24,404)	63.8%
Eurobonds	*(38,994)*	*(24,404)*	*59.8%*
Other	*(983)*	-	-
Interest expense	**(186,460)**	**(197,458)**	**-5.6%**
Net interest income before interest rate swaps	**246,770**	**230,832**	**6.9%**
Net loss from interest rate swaps	-	(303)	-100.0%
Net interest income	**246,770**	**230,529**	**7.0%**
Fee and commission income	97,974	83,906	16.8%
Fee and commission expense	(24,612)	(20,111)	22.4%
Net fee and commission income	**73,362**	**63,795**	**15.0%**
Net insurance premiums earned	77,950	95,982	-18.8%
Net insurance claims incurred	(52,208)	(60,862)	-14.2%
Net insurance revenue	**25,742**	**35,120**	**-26.7%**
Healthcare revenue	85,681	41,745	105.2%
Cost of healthcare services	(53,420)	(27,730)	92.6%
Net healthcare revenue	**32,261**	**14,015**	**130.2%**
Real estate income	14,001	3,973	NMF
Net gain from trading and investment securities	310	2,818	-89.0%
Net gain from revaluation of investment property	586	7,710	-92.4%
Net gain from foreign currencies, of which:	34,002	33,881	0.4%
Other operating income	9,841	8,857	11.1%
Other operating non-interest income	**58,740**	**57,239**	**2.6%**
Revenue	**436,875**	**400,698**	**9.0%**
Salaries and other employee benefits	(113,254)	(99,438)	13.9%
General and administrative expenses	(52,525)	(43,222)	21.5%
Depreciation and amortisation expenses	(20,854)	(19,889)	4.9%
Other operating expenses	(2,637)	(1,703)	54.8%
Operating expenses	**(189,270)**	**(164,252)**	**15.2%**
Operating income before cost of credit risk	**247,605**	**236,446**	**4.7%**
Cost of credit risk	**(42,468)**	**(51,803)**	**-18.0%**
Net operating income before non-recurring items	**205,137**	**184,643**	**11.1%**
Net non-recurring items	(8,924)	(6,871)	29.9%
Profit before income tax expense	**196,213**	**177,772**	**10.4%**
Income tax expense	(21,924)	(24,073)	-8.9%
Profit	**174,289**	**153,699**	**13.4%**
Attributable to:			
– shareholders of the Group	*168,284*	*147,845*	*13.8%*
– non-controlling interests	*6,005*	*5,854*	*2.6%*
Earnings per share (basic, diluted), GEL	**4.89**	**4.35**	**12.4%**

CONSOLIDATED INCOME STATEMENT

GEL thousands, unless otherwise noted	Quarter ended Q3 2014	Quarter ended Q3 2013	Change Y-O-Y	Quarter ended Q2 2014	Change Q-O-Q
Loans to customers	134,617	129,445	4.0%	128,157	5.0%
Investment securities	10,330	9,581	7.8%	9,552	8.1%
Amounts due from credit institutions	1,758	1,733	1.4%	1,467	19.8%
Finance lease receivables	1,880	1,688	11.4%	2,238	-16.0%
Interest income	**148,585**	**142,447**	**4.3%**	**141,414**	**5.1%**
Amounts due to customers	(32,762)	(37,866)	-13.5%	(32,603)	0.5%
Amounts due to credit institutions, of which:	(15,764)	(16,215)	-2.8%	(14,726)	7.0%
Subordinated debt	*(2,665)*	*(5,794)*	*-54.0%*	*(2,633)*	*1.2%*
Loans and deposits from other banks	*(13,099)*	*(10,421)*	*25.7%*	*(12,093)*	*8.3%*
Debt securities issued, of which:	(13,547)	(8,213)	64.9%	(13,531)	0.1%
Eurobonds	*(13,027)*	*(8,213)*	*58.6%*	*(13,233)*	*-1.6%*
Other	*(520)*	-	-	*(298)*	*74.5%*
Interest expense	**(62,073)**	**(62,294)**	**-0.4%**	**(60,860)**	**2.0%**
Net interest income before interest rate swaps	**86,512**	**80,153**	**7.9%**	**80,554**	**7.4%**
Net loss from interest rate swaps	-	(118)	-100.0%	-	-
Net interest income	**86,512**	**80,035**	**8.1%**	**80,554**	**7.4%**
Fee and commission income	35,159	29,008	21.2%	34,737	1.2%
Fee and commission expense	(7,844)	(7,489)	4.7%	(8,610)	-8.9%
Net fee and commission income	**27,315**	**21,519**	**26.9%**	**26,127**	**4.5%**
Net insurance premiums earned	23,332	31,693	-26.4%	25,228	-7.5%
Net insurance claims incurred	(13,647)	(19,297)	-29.3%	(18,876)	-27.7%
Net insurance revenue	**9,685**	**12,396**	**-21.9%**	**6,352**	**52.5%**
Healthcare revenue	33,090	14,256	132.1%	29,843	10.9%
Cost of healthcare services	(20,566)	(9,232)	122.8%	(17,904)	14.9%
Net healthcare revenue	**12,524**	**5,024**	**149.3%**	**11,939**	**4.9%**
Real estate income	2,209	1,373	60.9%	5,098	-56.7%
Net gain from trading and investment securities	125	228	-45.2%	97	28.9%
Net gain from revaluation of investment property	586	2,868	-79.6%	-	-
Net gain from foreign currencies, of which:	13,150	12,203	7.8%	9,963	32.0%
Other operating income	3,257	2,633	23.7%	4,045	-19.5%
Other operating non-interest income	**19,327**	**19,305**	**0.1%**	**19,203**	**0.6%**
Revenue	**155,363**	**138,279**	**12.4%**	**144,175**	**7.8%**
Salaries and other employee benefits	(40,196)	(34,361)	17.0%	(37,251)	7.9%
General and administrative expenses	(17,837)	(13,458)	32.5%	(19,198)	-7.1%
Depreciation and amortisation expenses	(7,047)	(6,550)	7.6%	(6,932)	1.7%
Other operating expenses	(876)	(520)	68.5%	(889)	-1.5%
Operating expenses	**(65,956)**	**(54,889)**	**20.2%**	**(64,270)**	**2.6%**
Operating income before cost of credit risk	**89,407**	**83,390**	**7.2%**	**79,905**	**11.9%**
Cost of credit risk	**(15,306)**	**(15,540)**	**-1.5%**	**(13,847)**	**10.5%**
Net operating income before non-recurring items	**74,101**	**67,850**	**9.2%**	**66,058**	**12.2%**
Net non-recurring items	(727)	(1,418)	-48.7%	(7,077)	-89.7%
Profit before income tax expense	**73,374**	**66,432**	**10.4%**	**58,981**	**24.4%**
Income tax expense	(11,066)	(7,835)	41.2%	(663)	NMF
Profit	**62,308**	**58,597**	**6.3%**	**58,318**	**6.8%**
Attributable to:					
– shareholders of the Group	*59,937*	*56,110*	*6.8%*	*56,422*	*6.2%*
– non-controlling interests	*2,371*	*2,487*	*-4.7%*	*1,896*	*25.1%*
Earnings per share (basic, diluted), GEL	**1.74**	**1.65**	**5.5%**	**1.64**	**6.1%**

CONSOLIDATED BALANCE SHEET

GEL thousands, unless otherwise noted	As at 30 Sep 2014	30 Sep 2013	Change Y-O-Y	As at 30 Jun 2014	Change Q-O-Q
Cash and cash equivalents	759,639	687,396	10.5%	903,734	-15.9%
Amounts due from credit institutions	372,042	324,825	14.5%	363,468	2.4%
Investment securities	617,700	567,598	8.8%	569,937	8.4%
Loans to customers and finance lease receivables	3,827,556	3,283,508	16.6%	3,659,427	4.6%
Investment property	185,316	163,092	13.6%	152,292	21.7%
Property and equipment	562,342	455,089	23.6%	534,289	5.3%
Goodwill	49,794	45,657	9.1%	48,720	2.2%
Intangible assets	30,019	24,540	22.3%	28,490	5.4%
Income tax assets	39,999	26,542	50.7%	32,204	24.2%
Prepayments	34,945	27,986	24.9%	28,188	24.0%
Other assets	336,316	348,114	-3.4%	346,932	-3.1%
Total assets	**6,815,668**	**5,954,347**	**14.5%**	**6,667,681**	**2.2%**
Amounts due to customers, of which:	3,088,254	2,862,512	7.9%	3,074,710	0.4%
Client deposits	*3,060,784*	*2,850,000*	*7.4%*	*3,046,845*	*0.5%*
Promissory notes	*27,470*	*12,512*	*119.5%*	*27,865*	*-1.4%*
Amounts due to credit institutions	1,264,299	1,216,719	3.9%	1,240,128	1.9%
Debt securities issued	794,952	419,543	89.5%	786,432	1.1%
Income tax liabilities	104,692	69,355	51.0%	92,617	13.0%
Provisions	3,765	407	NMF	6,047	-37.7%
Other liabilities	231,474	214,875	7.7%	210,871	9.8%
Total liabilities	**5,487,436**	**4,783,411**	**14.7%**	**5,410,805**	**1.4%**
Share capital	1,024	961	6.6%	1,081	-5.3%
Additional paid-in capital	40,909	24,496	67.0%	33,409	22.4%
Treasury shares	(43)	(53)	-18.9%	(46)	-6.5%
Other reserves	(47,298)	10,177	NMF	(82,318)	-42.5%
Retained earnings	1,276,801	1,078,645	18.4%	1,249,580	2.2%
Total equity attributable to shareholders of the Group	**1,271,393**	**1,114,226**	**14.1%**	**1,201,706**	**5.8%**
Non-controlling interests	56,839	56,710	0.2%	55,170	3.0%
Total equity	**1,328,232**	**1,170,936**	**13.4%**	**1,256,876**	**5.7%**
Total liabilities and equity	**6,815,668**	**5,954,347**	**14.5%**	**6,667,681**	**2.2%**
Book value per share	**36.97**	**32.83**	**12.6%**	**34.95**	**5.8%**

CONSOLIDATED INCOME STATEMENT

Thousands, unless otherwise noted	USD Nine months ended 30 Sep 2014	30 Sep 2013	Change Y-O-Y	GBP Nine months ended 30 Sep 2014	30 Sep 2013	Change Y-O-Y
Loans to customers	224,371	234,014	-4.1%	138,203	145,474	-5.0%
Investment securities	16,207	16,356	-0.9%	9,983	10,168	-1.8%
Amounts due from credit institutions	3,003	4,012	-25.1%	1,850	2,494	-25.8%
Finance lease receivables	3,640	2,942	23.7%	2,242	1,829	22.6%
Interest income	**247,221**	**257,324**	**-3.9%**	**152,278**	**159,965**	**-4.8%**
Amounts due to customers	(56,921)	(74,143)	-23.2%	(35,061)	(46,091)	-23.9%
Amounts due to credit institutions, of which:	(26,669)	(29,831)	-10.6%	(16,427)	(18,544)	-11.4%
Subordinated debt	*(4,938)*	*(10,177)*	*-51.5%*	*(3,042)*	*(6,326)*	*-51.9%*
Loans and deposits from other banks	*(21,730)*	*(19,654)*	*10.6%*	*(13,385)*	*(12,218)*	*9.6%*
Debt securities issued, of which:	*(22,813)*	*(14,662)*	*55.6%*	*(14,052)*	*(9,115)*	*54.2%*
Eurobonds	*(22,252)*	*(14,662)*	*51.8%*	*(13,706)*	*(9,115)*	*50.4%*
Other	*(561)*	-	-	*(346)*	-	-
Interest expense	**(106,403)**	**(118,636)**	**-10.3%**	**(65,540)**	**(73,750)**	**-11.1%**
Net interest income before interest rate swaps	**140,818**	**138,688**	**1.5%**	**86,738**	**86,215**	**0.6%**
Net loss from interest rate swaps	-	(182)	-100.0%	-	(113)	-100.0%
Net interest income	**140,818**	**138,506**	**1.7%**	**86,738**	**86,102**	**0.7%**
Fee and commission income	55,908	50,412	10.9%	34,437	31,339	9.9%
Fee and commission expense	(14,044)	(12,083)	16.2%	(8,651)	(7,512)	15.2%
Net fee and commission income	**41,864**	**38,329**	**9.2%**	**25,786**	**23,827**	**8.2%**
Net insurance premiums earned	44,482	57,668	-22.9%	27,399	35,849	-23.6%
Net insurance claims incurred	(29,792)	(36,567)	-18.5%	(18,351)	(22,732)	-19.3%
Net insurance revenue	**14,690**	**21,101**	**-30.4%**	**9,048**	**13,117**	**-31.0%**
Healthcare revenue	48,894	25,081	94.9%	30,116	15,592	93.2%
Cost of healthcare services	(30,484)	(16,661)	83.0%	(18,776)	(10,357)	81.3%
Net healthcare revenue	**18,410**	**8,420**	**118.6%**	**11,340**	**5,235**	**116.6%**
Real estate income	7,990	2,387	NMF	4,921	1,484	NMF
Net gain from trading and investment securities	177	1,693	-89.5%	109	1,053	-89.6%
Net gain from revaluation of investment property	334	4,632	-92.8%	206	2,880	-92.8%
Net gain from foreign currencies, of which:	19,403	20,356	-4.7%	11,951	12,654	-5.6%
Other operating income	5,615	5,322	5.5%	3,460	3,307	4.6%
Other operating non-interest income	**33,519**	**34,390**	**-2.5%**	**20,647**	**21,378**	**-3.4%**
Revenue	**249,301**	**240,746**	**3.6%**	**153,559**	**149,659**	**2.6%**
Salaries and other employee benefits	(64,628)	(59,744)	8.2%	(39,808)	(37,140)	7.2%
General and administrative expenses	(29,973)	(25,969)	15.4%	(18,462)	(16,143)	14.4%
Depreciation and amortisation expenses	(11,900)	(11,950)	-0.4%	(7,330)	(7,428)	-1.3%
Other operating expenses	(1,505)	(1,022)	47.3%	(927)	(636)	45.8%
Operating expenses	**(108,006)**	**(98,685)**	**9.4%**	**(66,527)**	**(61,347)**	**8.4%**
Operating income before cost of credit risk	**141,295**	**142,061**	**-0.5%**	**87,032**	**88,312**	**-1.4%**
Cost of credit risk	**(24,234)**	**(31,124)**	**-22.1%**	**(14,928)**	**(19,348)**	**-22.8%**
Net operating income before non-recurring items	**117,061**	**110,937**	**5.5%**	**72,104**	**68,964**	**4.6%**
Net non-recurring items	(5,093)	(4,129)	23.3%	(3,136)	(2,567)	22.2%
Profit before Income tax expense	**111,968**	**106,808**	**4.8%**	**68,968**	**66,397**	**3.9%**
Income tax expense	(12,511)	(14,463)	-13.5%	(7,706)	(8,991)	-14.3%
Profit	**99,457**	**92,345**	**7.7%**	**61,262**	**57,406**	**6.7%**
Attributable to:						
– shareholders of the Group	*96,030*	*88,828*	*8.1%*	*59,151*	*55,220*	*7.1%*
– non-controlling interests	*3,427*	*3,517*	*-2.6%*	*2,111*	*2,186*	*-3.4%*
Earnings per share (basic, diluted)	**2.79**	**2.61**	**6.9%**	**1.72**	**1.62**	**6.2%**

CONSOLIDATED INCOME STATEMENT

	USD					GBP				
	Quarter ended					Quarter ended				
Thousands, unless otherwise noted	**30 Sep 2014**	**30 Sep 2013**	**Change Y-O-Y**	**30 Jun 2014**	**Change Q-O-Q**	**30 Sep 2014**	**30 Sep 2013**	**Change Y-O-Y**	**30 Jun 2014**	**Change Q-O-Q**
Loans to customers	76,819	77,773	-1.2%	72,442	6.0%	47,317	48,347	-2.1%	42,557	11.2%
Investment securities	5,895	5,756	2.4%	5,399	9.2%	3,631	3,578	1.5%	3,172	14.5%
Amounts due from credit institutions	1,003	1,041	-3.7%	829	21.0%	618	647	-4.5%	487	26.9%
Finance lease receivables	1,072	1,015	5.6%	1,266	-15.3%	661	631	4.8%	744	-11.2%
Interest income	**84,789**	**85,585**	**-0.9%**	**79,936**	**6.1%**	**52,227**	**53,203**	**-1.8%**	**46,960**	**11.2%**
Amounts due to customers	(18,696)	(22,751)	-17.8%	(18,429)	1.4%	(11,516)	(14,143)	-18.6%	(10,827)	6.4%
Amounts due to credit institutions, of which:	(8,994)	(9,742)	-7.7%	(8,324)	8.0%	(5,541)	(6,055)	-8.5%	(4,890)	13.3%
Subordinated debt	*(1,521)*	*(3,481)*	*-56.3%*	*(1,488)*	*2.2%*	*(937)*	*(2,164)*	*-56.7%*	*(874)*	*7.2%*
Loans and deposits from other banks	*(7,473)*	*(6,261)*	*19.4%*	*(6,836)*	*9.3%*	*(4,604)*	*(3,891)*	*18.3%*	*(4,016)*	*14.6%*
Debt securities issued, of which:	(7,731)	(4,935)	56.7%	(7,649)	1.1%	(4,762)	(3,068)	55.2%	(4,493)	6.0%
Eurobonds	*(7,434)*	*(4,935)*	*50.6%*	*(7,480)*	*-0.6%*	*(4,579)*	*(3,068)*	*49.3%*	*(4,394)*	*4.2%*
Other	*(297)*	*-*	*-*	*(169)*	*75.7%*	*(183)*	*-*	*-*	*(99)*	*84.8%*
Interest expense	**(35,421)**	**(37,428)**	**-5.4%**	**(34,402)**	**3.0%**	**(21,819)**	**(23,266)**	**-6.2%**	**(20,210)**	**8.0%**
Net interest income before interest rate swaps	**49,368**	**48,157**	**2.5%**	**45,534**	**8.4%**	**30,408**	**29,937**	**1.6%**	**26,750**	**13.7%**
Net loss from interest rate swaps	-	(71)	-100.0%	-	-	-	(44)	-100.0%	-	-
Net interest income	**49,368**	**48,086**	**2.7%**	**45,534**	**8.4%**	**30,408**	**29,893**	**1.7%**	**26,750**	**13.7%**
Fee and commission income	20,063	17,429	15.1%	19,635	2.2%	12,358	10,834	14.1%	11,535	7.1%
Fee and commission expense	(4,476)	(4,500)	-0.5%	(4,866)	-8.0%	(2,757)	(2,797)	-1.4%	(2,859)	-3.6%
Net fee and commission income	**15,587**	**12,929**	**20.6%**	**14,769**	**5.5%**	**9,601**	**8,037**	**19.5%**	**8,676**	**10.7%**
Net insurance premiums earned	13,314	19,042	-30.1%	14,260	-6.6%	8,201	11,837	-30.7%	8,377	-2.1%
Net insurance claims incurred	(7,787)	(11,594)	-32.8%	(10,669)	-27.0%	(4,797)	(7,207)	-33.4%	(6,268)	-23.5%
Net insurance revenue	**5,527**	**7,448**	**-25.8%**	**3,591**	**53.9%**	**3,404**	**4,630**	**-26.5%**	**2,109**	**61.4%**
Healthcare revenue	18,883	8,565	120.5%	16,869	11.9%	11,631	5,325	118.4%	9,910	17.4%
Cost of healthcare services	(11,736)	(5,546)	111.6%	(10,120)	16.0%	(7,229)	(3,449)	109.6%	(5,945)	21.6%
Net healthcare revenue	**7,147**	**3,019**	**136.7%**	**6,749**	**5.9%**	**4,402**	**1,876**	**134.6%**	**3,965**	**11.0%**
Real estate income	1,261	825	52.8%	2,882	-56.2%	776	513	51.3%	1,693	-54.2%
Net gain from trading and investment securities	71	137	-48.2%	55	29.1%	44	85	-48.2%	32	37.5%
Net gain from revaluation of investment property	334	1,723	-80.6%	-	-	206	1,071	-80.8%	-	-
Net gain from foreign currencies, of which:	7,504	7,332	2.3%	5,632	33.2%	4,622	4,558	1.4%	3,308	39.7%
Other operating income	1,858	1,581	17.5%	2,284	-18.7%	1,146	984	16.5%	1,343	-14.7%
Other operating non-interest income	**11,028**	**11,598**	**-4.9%**	**10,853**	**1.6%**	**6,794**	**7,211**	**-5.8%**	**6,376**	**6.6%**
Revenue	**88,657**	**83,080**	**6.7%**	**81,496**	**8.8%**	**54,609**	**51,647**	**5.7%**	**47,876**	**14.1%**
Salaries and other employee benefits	(22,938)	(20,645)	11.1%	(21,056)	8.9%	(14,129)	(12,834)	10.1%	(12,370)	14.2%
General and administrative expenses	(10,179)	(8,086)	25.9%	(10,852)	-6.2%	(6,270)	(5,027)	24.7%	(6,375)	-1.6%
Depreciation and amortisation expenses	(4,021)	(3,935)	2.2%	(3,918)	2.6%	(2,477)	(2,446)	1.3%	(2,302)	7.6%
Other operating expenses	(499)	(312)	59.9%	(503)	-0.8%	(307)	(194)	58.2%	(295)	4.1%
Operating expenses	**(37,637)**	**(32,978)**	**14.1%**	**(36,329)**	**3.6%**	**(23,183)**	**(20,501)**	**13.1%**	**(21,342)**	**8.6%**
Operating income before cost of credit risk	**51,020**	**50,102**	**1.8%**	**45,167**	**13.0%**	**31,426**	**31,146**	**0.9%**	**26,534**	**18.4%**
Cost of credit risk	**(8,735)**	**(9,337)**	**-6.4%**	**(7,827)**	**11.6%**	**(5,380)**	**(5,804)**	**-7.3%**	**(4,598)**	**17.0%**
Net operating income before non-recurring items	**42,285**	**40,765**	**3.7%**	**37,340**	**13.2%**	**26,046**	**25,342**	**2.8%**	**21,936**	**18.7%**
Net non-recurring items	(414)	(852)	-51.4%	(4,000)	-89.7%	(255)	(530)	-51.9%	(2,350)	-89.1%
Profit before Income tax expense	**41,871**	**39,913**	**4.9%**	**33,340**	**25.6%**	**25,791**	**24,812**	**3.9%**	**19,586**	**31.7%**
Income tax expense	(6,315)	(4,707)	34.2%	(375)	NMF	(3,890)	(2,926)	32.9%	(220)	NMF
Profit	**35,556**	**35,206**	**1.0%**	**32,965**	**7.9%**	**21,901**	**21,886**	**0.1%**	**19,366**	**13.1%**
Attributable to:										
– shareholders of the Group	*34,203*	*33,712*	*1.5%*	*31,893*	*7.2%*	*21,068*	*20,957*	*0.5%*	*18,736*	*12.4%*
– non-controlling interests	*1,353*	*1,494*	*-9.4%*	*1,072*	*26.2%*	*833*	*929*	*-10.3%*	*630*	*32.2%*
Earnings per share (basic, diluted), GEL	**0.99**	**0.99**	**0.0%**	**0.93**	**6.5%**	**0.61**	**0.62**	**-1.6%**	**0.54**	**13.0%**

CONSOLIDATED BALANCE SHEET

	USD					GBP				
	As at			As at		As at			As at	
Thousands, unless otherwise noted	**30 Sep 14**	**30 Sep 13**	**Change Y-O-Y**	**30 Jun 14**	**Change Q-O-Q**	**30 Sep 14**	**30 Sep 13**	**Change Y-O-Y**	**30 Jun 14**	**Change Q-O-Q**
Cash and cash equivalents	433,485	412,999	5.0%	510,844	-15.1%	267,008	256,740	4.0%	300,104	-11.0%
Amounts due from credit institutions	212,304	195,160	8.8%	205,454	3.3%	130,770	121,321	7.8%	120,697	8.3%
Investment securities	352,488	341,023	3.4%	322,162	9.4%	217,118	211,996	2.4%	189,260	14.7%
Loans to customers and finance lease receivables	2,184,179	1,972,788	10.7%	2,068,525	5.6%	1,345,362	1,226,379	9.7%	1,215,191	10.7%
Investment property	105,750	97,988	7.9%	86,084	22.8%	65,137	60,914	6.9%	50,572	28.8%
Property and equipment	320,898	273,425	17.4%	302,012	6.3%	197,660	169,974	16.3%	177,422	11.4%
Goodwill	28,415	27,432	3.6%	27,539	3.2%	17,502	17,053	2.6%	16,179	8.2%
Intangible assets	17,130	14,744	16.2%	16,104	6.4%	10,551	9,166	15.1%	9,461	11.5%
Income tax assets	22,825	15,947	43.1%	18,204	25.4%	14,059	9,913	41.8%	10,694	31.5%
Prepayments	19,941	16,814	18.6%	15,934	25.1%	12,283	10,453	17.5%	9,360	31.2%
Other assets	191,918	209,154	-8.2%	196,106	-2.1%	118,215	130,020	-9.1%	115,207	2.6%
Total assets	**3,889,333**	**3,577,474**	**8.7%**	**3,768,968**	**3.2%**	**2,395,665**	**2,223,929**	**7.7%**	**2,214,147**	**8.2%**
Amounts due to customers, of which:	1,762,300	1,719,846	2.5%	1,738,008	1.4%	1,085,503	1,069,139	1.5%	1,021,023	6.3%
Client deposits	*1,746,624*	*1,712,329*	*2.0%*	*1,722,257*	*1.4%*	*1,075,847*	*1,064,466*	*1.1%*	*1,011,770*	*6.3%*
Promissory notes	*15,676*	*7,517*	*108.5%*	*15,751*	*-0.5%*	*9,656*	*4,673*	*106.6%*	*9,253*	*4.4%*
Amounts due to credit institutions	721,467	731,026	-1.3%	700,994	2.9%	444,393	454,441	-2.2%	411,811	7.9%
Debt securities issued	453,636	252,069	80.0%	444,538	2.0%	279,421	156,698	78.3%	261,152	7.0%
Income tax liabilities	59,742	41,670	43.4%	52,353	14.1%	36,799	25,904	42.1%	30,755	19.7%
Provisions	2,148	245	NMF	3,418	-37.2%	1,323	152	NMF	2,008	-34.1%
Other liabilities	132,090	129,099	2.3%	119,196	10.8%	81,361	80,254	1.4%	70,025	16.2%
Total liabilities	**3,131,383**	**2,873,955**	**9.0%**	**3,058,507**	**2.4%**	**1,928,800**	**1,786,588**	**8.0%**	**1,796,774**	**7.3%**
Share capital	584	577	1.2%	611	-4.4%	360	359	0.3%	359	0.3%
Additional paid-in capital	23,345	14,718	58.6%	18,885	23.6%	14,379	9,149	57.2%	11,094	29.6%
Treasury shares	(25)	(32)	-21.9%	(26)	-3.8%	(15)	(20)	-25.0%	(15)	0.0%
Other reserves	(26,990)	6,115	NMF	(46,532)	-42.0%	(16,625)	3,802	NMF	(27,336)	-39.2%
Retained earnings	728,601	648,068	12.4%	706,337	3.2%	448,788	402,870	11.4%	414,950	8.2%
Total equity attributable to shareholders of the Group	**725,515**	**669,446**	**8.4%**	**679,275**	**6.8%**	**446,887**	**416,160**	**7.4%**	**399,052**	**12.0%**
Non-controlling interests	32,435	34,073	-4.8%	31,186	4.0%	19,978	21,181	-5.7%	18,321	9.0%
Total equity	**757,950**	**703,519**	**7.7%**	**710,461**	**6.7%**	**466,865**	**437,341**	**6.8%**	**417,373**	**11.9%**
Total liabilities and equity	**3,889,333**	**3,577,474**	**8.7%**	**3,768,968**	**3.2%**	**2,395,665**	**2,223,929**	**7.7%**	**2,214,147**	**8.2%**
Book value per share	**21.10**	**19.72**	**7.0%**	**19.76**	**6.8%**	**12.99**	**12.26**	**6.0%**	**11.61**	**11.9%**

HEALTHCARE BUSINESS INCOME STATEMENT

	Nine months ended		Change
Thousands, unless otherwise noted	30 Sep 2014	30 Sep 2013	Y-O-Y
Gross premiums written (GPW)	**36,039**	**90,593**	**-60.2%**
Gross premiums earned	**60,887**	**79,320**	**-23.2%**
Net insurance premiums earned	58,888	77,250	-23.8%
Net insurance claims incurred	(43,771)	(54,656)	-19.9%
Net insurance revenue	**15,117**	**22,594**	**-33.1%**
Healthcare revenue	85,681	41,746	105.2%
Cost of healthcare services	(53,421)	(27,731)	92.6%
Net healthcare revenue	**32,260**	**14,015**	**130.2%**
Net interest expense and other	**(11,465)**	**(7,018)**	**63.4%**
Revenue	**35,912**	**29,591**	**21.4%**
Operating expenses	(22,197)	(15,582)	42.5%
Operating income before cost of credit risk	**13,715**	**14,009**	**-2.1%**
Cost of credit risk	(1,460)	(1,061)	37.6%
Net non-recurring items	1,375	-	-
Profit before income tax expense	**13,630**	**12,948**	**5.3%**
Income tax expense	(1,307)	(1,673)	-21.9%
Profit	**12,323**	**11,275**	**9.3%**

	Quarter ended		Change	Quarter ended	Change
Thousands, unless otherwise noted	30 Sep 2014	30 Sep 2013	Y-O-Y	30 Jun 2014	Q-O-Q
Gross premiums written (GPW)	**3,286**	**44,588**	**-92.6%**	**11,532**	**-71.5%**
Gross premiums earned	**17,063**	**25,245**	**-32.4%**	**19,428**	**-12.2%**
Net insurance premiums earned	16,430	24,694	-33.5%	18,791	-12.6%
Net insurance claims incurred	(10,054)	(17,583)	-42.8%	(15,950)	-37.0%
Net insurance revenue	**6,376**	**7,111**	**-10.3%**	**2,841**	**124.4%**
Healthcare revenue	33,090	14,256	132.1%	29,843	10.9%
Cost of healthcare services	(20,566)	(9,232)	122.8%	(17,904)	14.9%
Net healthcare revenue	**12,524**	**5,024**	**149.3%**	**11,939**	**4.9%**
Net interest expense and other	**(2,969)**	**(3,139)**	**-5.4%**	**(5,386)**	**-44.9%**
Revenue	**15,931**	**8,996**	**77.1%**	**9,394**	**69.6%**
Operating expenses	(8,676)	(4,655)	86.4%	(7,140)	21.5%
Operating income before cost of credit risk	**7,255**	**4,341**	**67.1%**	**2,254**	**NMF**
Cost of credit risk	(377)	(56)	NMF	(568)	-33.6%
Net non-recurring items	-	-	-	829	-100.0%
Profit before Income tax expense	**6,878**	**4,285**	**60.5%**	**2,515**	**173.5%**
Income tax expense	(702)	(521)	34.7%	(146)	NMF
Profit	**6,176**	**3,764**	**64.1%**	**2,369**	**160.7%**

	Currency Blended		GEL		FC	
	Nine months ended					
KEY RATIOS	**30 Sep 2014**	**30 Sep 2013**	**30 Sep 2014**	**30 Sep 2013**	**30 Sep 2014**	**30 Sep 2013**
Profitability						
ROAA, annualised[1]	3.5%	3.6%				
ROAE, annualised[2]	18.5%	18.6%				
Net Interest Margin, annualised[3]	7.4%	7.7%	12.6%	13.4%	4.0%	4.2%
Loan Yield, annualised[4]	14.6%	16.5%	19.8%	23.0%	12.1%	13.7%
Cost of Funding, annualised[5]	4.9%	6.2%	4.1%	5.3%	5.2%	6.5%
Cost of Customer Funds, annualised	4.3%	5.8%	3.8%	5.4%	4.6%	6.1%
Cost of Client Deposits, annualised	4.3%	5.8%	3.8%	5.4%	4.5%	6.1%
Cost of Amounts Due to Credit Institutions, annualised	5.1%	6.3%	4.5%	4.9%	5.4%	6.7%
Cost of Debt Securities Issued	7.1%	7.8%				
Operating Leverage, Y-O-Y[6]	-6.2%	10.1%				
Efficiency						
Cost / Income[7]	43.3%	41.0%				
Liquidity						
NBG Liquidity ratio[8]	37.8%	37.5%				
Liquid Assets to Total Liabilities[9]	31.9%	33.1%				
Net Loans to Customer Funds	123.9%	114.7%				
Net Loans to Customer Funds + DFIs	103.9%	96.1%				
Gross Loan Dollarisation Rate	69.4%	67.6%				
Customer Funds Dollarisation Rate	70.2%	69.3%				
Client Deposits Dollarisation Rate	69.9%	69.2%				
Leverage (times)[10]	4.1	4.1				
Asset Quality:						
NPLs (GEL)	154,417	143,663				
NPLs to Gross Loans to Clients	3.9%	4.2%				
NPL Coverage ratio[11]	78.5%	86.2%				
NPL Coverage ratio, adjusted for discounted value of collateral[12]	112.4%	111.8%				
Cost of Risk, annualised[13]	1.2%	1.5%				
Capital Adequacy:						
BIS Tier I Capital Adequacy ratio, consolidated[14]	22.7%	23.7%				
BIS Total Capital Adequacy ratio, consolidated[15]	26.4%	28.6%				
New NBG (Basel II) Tier I Capital Adequacy ratio[16]	11.2%	0.0%				
New NBG (Basel II) Total Capital Adequacy ratio[17]	14.2%	0.0%				
Old NBG Tier I Capital Adequacy ratio[18]	14.5%	15.4%				
Old NBG Total Capital Adequacy ratio[19]	14.1%	16.6%				
Per Share Values:						
Basic and Diluted EPS (GEL)[20]	**4.89**	**4.35**				
Book Value Per Share (GEL)[21]	**36.97**	**32.83**				
Ordinary Shares Outstanding - Weighted Average,Basic[22]	34,423,740	33,998,855				
Ordinary Shares Outstanding - Weighted Average, Diluted[23]	34,423,740	33,998,855				
Ordinary Shares Outstanding - Period End, Basic	34,387,198	33,936,007				
Treasury Shares Outstanding - Period End	(1,522,185)	(1,973,376)				
Selected Operating Data:						
Full Time Employees (FTEs), Group, of Which:	13,182	11,571				
- Full Time Employees, BOG Standalone	*3,649*	*3,662*				
- Full Time Employees, Aldagi Insurance	*n/a*	*598*				
- Full Time Employees, Aldagi Healthcare	*n/a*	*6,105*				
- Full Time Employees, Evex	*7,642*	*n/a*				
- Full Time Employees, Imedi L	*384*	*n/a*				
- Full Time Employees, Aldagi	*240*	*n/a*				
- Full Time Employees, BNB	*455*	*388*				
- Full Time Employees, Other	*812*	*818*				
Total Assets Per FTE, BOG standalone (GEL thousands)	1,868	1,626				
Number of Active Branches, of Which:	217	199				
- Flagship Branches	*34*	*34*				
- Standard Branches	*100*	*100*				
- Express Branches (including Metro)	*83*	*65*				
Number of ATMs	521	486				
Number of Cards Outstanding, of Which:	1,103,066	926,646				
- Debit cards	*986,477*	*809,843*				
- Credit cards	116,589	116,803				
Number of POS Terminals	5,979	4,541				

	Nine months ended	
OTHER RATIOS	**30 Sep 2014**	**30 Sep 2013**
Profitability Ratios:		
ROE, annualised	17.7%	17.7%
Interest Income to Average Interest Earning Assets, annualised[24]	12.8%	14.4%
Net F&C Income to Average Interest Earning Assets, annualised	1.9%	1.9%
Net Fee And Commission Income to Revenue	16.8%	15.9%
Revenue to Total Assets, annualised	8.6%	9.0%
Recurring Earning Power, annualised[25]	5.0%	5.6%
Profit to Revenue	39.9%	38.4%
Efficiency Ratios:		
Operating Cost to Average Total Assets, annualised[26]	3.8%	3.9%
Cost to Average Total Assets, annualised	4.0%	4.1%
Personnel Cost to Revenue	25.9%	24.8%
Personnel Cost to Operating Cost	59.8%	60.5%
Personnel Cost to Average Total Assets, annualised	2.3%	2.3%
Liquidity Ratios:		
Liquid Assets to Total Assets	25.7%	26.6%
Net Loans to Total Assets	56.2%	55.1%
Average Net Loans to Average Total Assets	53.8%	54.6%
Interest Earning Assets to Total Assets	77.8%	77.3%
Average Interest Earning Assets to Average Total Assets	77.8%	77.7%
Net Loans to Client Deposits	125.1%	115.2%
Average Net Loans to Average Customer funds	116.6%	109.5%
Net Loans to Total Deposits	103.7%	97.0%
Net Loans to (Total Deposits + Equity)	76.3%	72.1%
Net Loans to Total Liabilities	69.8%	68.6%
Total Deposits to Total Liabilities	67.2%	70.8%
Client Deposits to Total Deposits	83.0%	84.2%
Client Deposits to Total Liabilities	55.8%	59.6%
Total Deposits to Total Assets	54.1%	56.9%
Client Deposits to Total Assets	44.9%	47.9%
Client Deposits to Total Equity (times)	2.3	2.4
Total Equity to Net Loans	34.7%	35.7%
Asset Quality:		
Reserve for Loan Losses to Gross Loans to Clients[27]	3.1%	3.6%
% of Loans to Clients collateralised	86.5%	85.4%
Equity to Average Net Loans to Clients	37.1%	37.9%

	Currency Blended			GEL			FC		
				Quarter ended					
KEY RATIOS	**30 Sep 2014**	**30 Sep 2013**	**30 Jun 2014**	**30 Sep 2014**	**30 Sep 2013**	**30 Jun 2014**	**30 Sep 2014**	**30 Sep 2013**	**30 Jun 2014**
Profitability									
ROAA, annualised[1]	3.7%	4.0%	3.5%						
ROAE, annualised[2]	19.2%	20.6%	18.6%						
Net Interest Margin, annualised[3]	7.4%	7.7%	7.3%	12.6%	13.2%	12.4%	4.2%	4.1%	4.0%
Loan Yield, annualised[4]	14.3%	15.8%	14.5%	19.9%	22.1%	19.4%	11.8%	12.9%	12.1%
Cost of Funding, annualised[5]	4.8%	5.6%	4.8%	4.0%	4.6%	4.0%	5.1%	6.0%	5.1%
Cost of Customer Funds, annualised	4.2%	5.2%	4.3%	3.8%	4.3%	3.9%	4.4%	5.7%	4.4%
Cost of Client Deposits, annualised	4.2%	5.2%	4.3%	3.8%	4.3%	3.9%	4.4%	5.7%	4.4%
Cost of Amounts Due to Credit Institutions, annualised	5.0%	5.8%	4.9%	4.4%	5.3%	4.1%	5.4%	6.0%	5.4%
Cost of Debt Securities Issued	6.9%	7.8%	7.1%						
Operating Leverage, Y-O-Y[6]	-7.8%	11.1%	-12.2%						
Efficiency									
Cost / Income[7]	42.5%	39.7%	44.6%						
Liquidity									
NBG Liquidity Ratio[8]	37.8%	37.5%	38.1%						
Liquid Assets To Total Liabilities[9]	31.9%	33.1%	34.0%						
Net Loans To Customer Funds	123.9%	114.7%	119.0%						
Net Loans To Customer Funds + DFIs	103.9%	96.1%	100.3%						
Gross Loan Dollarisation Rate	69.4%	67.6%	68.5%						
Customer Funds Dollarisation Rate	70.2%	69.3%	72.7%						
Client Deposits Dollarisation Rate	69.9%	69.2%	72.5%						
Leverage (times)[10]	4.1	4.1	4.3						
Asset Quality:									
NPLs (GEL)	154,417	143,663	145,590						
NPLs to Gross Loans To Clients	3.9%	4.2%	3.9%						
NPL Coverage ratio[11]	78.5%	86.2%	74.5%						
NPL Coverage ratio, adjusted for discounted value of collateral[12]	112.4%	111.8%	116.8%						
Cost of Risk, Annualised[13]	1.6%	1.6%	0.9%						
Capital Adequacy:									
BIS Tier I Capital Adequacy ratio, consolidated[14]	22.7%	23.7%	22.5%						
BIS Total Capital Adequacy ratio, consolidated[15]	26.4%	28.6%	26.3%						
New NBG (Basel II) Tier I Capital Adequacy ratio[16]	11.2%	0.0%	10.8%						
New NBG (Basel II) Total Capital Adequacy ratio[17]	14.2%	0.0%	14.0%						
Old NBG Tier I Capital Adequacy ratio[18]	14.5%	15.4%	14.8%						
Old NBG Total Capital Adequacy ratio[19]	14.1%	16.6%	13.8%						
Per Share Values:									
Basic and diluted EPS (GEL)[20]	**1.74**	**1.65**	**1.64**						
Book Value Per Share (GEL)[21]	**36.97**	**32.83**	**34.95**						
Ordinary shares outstanding - weighted average, basic[22]	34,387,198	33,936,007	34,414,605						
Ordinary shares outstanding - weighted average, diluted[23]	34,387,198	33,936,007	34,414,605						
Ordinary shares outstanding - period end, basic	34,387,198	33,936,007	34,387,198						
Treasury shares outstanding - period end	(1,522,185)	(1,973,376)	(1,522,185)						
Selected Operating Data:									
Full Time Employees, Group, Of Which:	13,182	11,571	12,267						
- Full Time Employees, BOG Stand-Alone	*3,649*	*3,662*	*3,629*						
- Full Time Employees, Aldagi Insurance	*n/a*	*598*	*590*						
- Full Time Employees, Aldagi Healthcare	*n/a*	*6,105*	*6,753*						
- Full Time Employees, Evex	*7,642*	*n/a*	*n/a*						
- Full Time Employees, Imedi L	*384*	*n/a*	*n/a*						
- Full Time Employees, Aldagi	*240*	*n/a*	*n/a*						
- Full Time Employees, BNB	*455*	*388*	*439*						
- Full Time Employees, Other	*812*	*818*	*856*						
Total Assets Per FTE, BOG Standalone (GEL thousands)	1,868	1,626	1,837						
Number of Active Branches, of which:	217	199	206						
- Flagship Branches	*34*	*34*	*34*						
- Standard Branches	*100*	*100*	*100*						
- Express Branches (including Metro)	*83*	*65*	*72*						
Number Of ATMs	521	486	510						
Number Of Cards Outstanding, of which:	1,103,066	926,646	1,075,134						
- Debit cards	*986,477*	*809,843*	*957,386*						
- Credit cards	*116,589*	*116,803*	*117,748*						
Number Of POS Terminals	5,979	4,541	5,689						

OTHER RATIOS QUARTERLY	Quarter ended		
	30 Sep 2014	30 Sep 2013	30 Jun 2014
Profitability Ratios:			
ROE, annualised	18.7%	20.0%	18.8%
Interest Income to Average Interest Earning Assets, annualised[24]	12.6%	13.7%	12.7%
Net F&C Income To Average Interest Earning Assets, annualised	2.1%	1.9%	2.0%
Net Fee And Commission Income To Revenue	17.6%	15.6%	18.1%
Operating Leverage, Q-O-Q	5.1%	0.5%	-3.9%
Revenue to Total Assets, annualised	9.0%	9.2%	8.7%
Recurring Earning Power, annualised[25]	5.3%	5.7%	4.8%
Profit To Revenue	40.1%	42.4%	40.4%
Efficiency Ratios:			
Operating Cost to Average Total Assets, annualised[26]	3.9%	3.8%	3.9%
Cost to Average Total Assets, annualised	3.9%	3.9%	4.4%
Personnel Cost to Revenue	25.9%	24.8%	25.8%
Personnel Cost to Operating Cost	60.9%	62.6%	58.0%
Personnel Cost to Average Total Assets, annualised	2.4%	2.4%	2.3%
Liquidity Ratios:			
Liquid Assets to Total Assets	25.7%	26.6%	27.6%
Net Loans to Total Assets	56.2%	55.1%	54.9%
Average Net Loans to Average Total Assets	54.8%	55.0%	53.4%
Interest Earning Assets to Total Assets	77.8%	77.3%	78.5%
Average Interest Earning Assets to Average Total Assets	77.7%	77.4%	77.8%
Net Loans to Client Deposits	125.1%	115.2%	120.1%
Average Net Loans to Average Customer funds	119.4%	111.0%	115.3%
Net Loans to Total Deposits	103.7%	97.0%	99.7%
Net Loans to (Total Deposits + Equity)	76.3%	72.1%	74.3%
Net Loans to Total Liabilities	69.8%	68.6%	67.6%
Total Deposits to Total Liabilities	67.2%	70.8%	67.8%
Client Deposits to Total Deposits	83.0%	84.2%	83.0%
Client Deposits to Total Liabilities	55.8%	59.6%	56.3%
Total Deposits to Total Assets	54.1%	56.9%	55.0%
Client Deposits to Total Assets	44.9%	47.9%	45.7%
Client Deposits to Total Equity (Times)	2.3	2.4	2.4
Total Equity to Net Loans	34.7%	35.7%	34.3%
Asset Quality:			
Reserve for Loan Losses to Gross Loans to Clients[27]	3.1%	3.6%	2.9%
% of Loans to Clients collateralised	86.5%	85.4%	87.0%
Equity to Average Net Loans to Clients	35.9%	36.7%	35.5%

NOTES TO KEY RATIOS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

26 Operating cost equals other operating expenses;

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

ANNEX I – Summary of the new capital regulation

On 28 October 2013, the National Bank of Georgia published Decree No. 100/04, introducing a new capital regulation to replace the NBG capital regulation in place since 2002, which was occasionally updated previously. The new capital regulation is based on the Basel Accord 2 and 3, with material regulatory discretions applied by the NBG. According to the Decree No. 100/04, Pillar 1 requirements of the new regulation came into force on 30 June 2014. The period starting 30 June 2014 through 31 December 2017 was declared as a transition period. During the transition period, the Georgian banks are required to comply with the certain ratios per old NBG regulation according the following schedule: 2014 – 100% of the old regulatory capital, in 2015 – 95% of the old regulatory capital, in 2016 – 90% of the older regulatory capital and in 2017 – 80% of the old regulatory capital.

According to the Decree No. 1s00/04, Pillar 2 requirements (the ICAAP) are expected to come in force after 30 September 2014, however, the deadline for Pillar 2 requirements may be postponed.

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

Feature	NBG new Basel 2/3 based regulation, Pillar 1	NBG old regulation (no Pillar 2 or 3 existed)
Tier 1 Capital Ratio requirement	8.5%	8%
Total Capital Ratio requirement	10.5%	12%
Level of consolidation	JSC Bank of Georgia stand-alone	JSC Bank of Georgia stand-alone
Input data based on	NBG unconsolidated (stand-alone) financial statements per NBG accounting standards	NBG unconsolidated (stand-alone) financial statements per NBG accounting standards
Capital composition	Basel 3 based: share capital, share premium (additionally paid-in capital), prior period retained earnings are all components of Tier 1; revaluation and other reserves are excluded from regulatory capital; current period profit or loss included in Tier 1; investments in financial institution subsidiaries, above the 10% allowed threshold of Tier 1, are deducted from Tier 1, while the allowed 10% of Tier 1 is risk-weighted at 250%; investments in non-financial institution subsidiaries are fully deducted from Tier 1; sub-debt definition applies "no step-up" requirement; amount of sub-debt to be added to Tier 2 is not limited	NBG discretion: share capital, share premium (additionally paid-in capital), prior period retained earnings are all components of Tier 1; revaluation and other reserves are excluded from regulatory capital; current period profit or loss included in Tier 2; all investments in all subsidiaries deducted from Tier 2; sub-debt definition does not apply "no step-up" requirement; amount of sub-debt to be added to Tier 2 is limited to 50% of total Tier 1
RWA: Cash and cash equivalents	0% risk weighted, except for cash in transit	0% risk-weighted, except for cash and cash equivalents denominated in non-OECD currencies
RWA: Foreign currency denominated balances placed with NBG (including mandatory reserves)	100% risk weighted	0% risk weighted
RWA: Inter-bank loans and deposits	Based on individual international ratings, or, in absence of such, based on	OECD placed loans and deposits risk weighted at 20%; non-OECD placed

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

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