BANK OF GEORGIA

**Tbilisi, 30 April, 2009**

# *Bank of Georgia Annual Financial Report*

In compliance with DTR 6.3.5, the following information constitutes the Annual Financial Report for the year ended 31 December 2008. The audited consolidated financial results of JSC Bank of Georgia and its Subsidiaries, prepared in accordance with International Financial Reporting Standards, were published as part 1 of the Annual Financial Report.

**Directors' Responsibility Statement**

'The Directors confirm to the best of their knowledge that:

- the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards;
- the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and the undertakings included in the consolidation taken as a whole; and
- the Annual Report and Accounts include a fair review of the development and performance of the business and the position of the Bank and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

JSC Bank of Georgia (LSE: BGEO; GSE: GEB) is the leading Georgian bank with operations in Georgia, Ukraine and Belarus. It is the largest bank by assets, loans, deposits and equity in Georgia with 32.9% market share[1] by assets as of 31 December 2008. The Bank offers a broad range of retail banking and corporate banking services to its clients. It is also the leading provider of brokerage, insurance and wealth management services in Georgia.

Bank of Georgia's activities are divided across business and geographical lines, with strong commercial banking footprint. Retail banking is the most significant source of Bank of Georgia's revenue, generating approximately 57% of the total revenue. Corporate banking accounts for approximately 34% of the total revenue. Georgia is principal market of Bank of Georgia, with only 9% of revenues derived from Ukraine, the second largest market for the Bank.

## Discussion of financial statements

## Statement of Income

Bank of Georgia reported 2008 Net income of GEL 0.2 million, or GEL 0.13 per share, and total Net operating income (Revenue)[2] of GEL 335.7 million, compared with record Net income of GEL 75.6 million, or GEL 2.96 per share and total Net operating income of GEL 235.8 million in 2007. The decline in Net income for the year was primarily a result of a significantly higher Impairment charge on Loans to Customers of GEL 122.8 million, reflecting the addition of GEL 77.7 million to the Bank's Allowance for loan impairment; Losses from trading and investment securities in the amount of GEL 4.9 million; and Expenses from impairment of other assets and guarantee provisions of GEL 4.6 million in 2008.



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**Revenue**

Revenue of GEL 335.7 million increased by 42.3% compared to 2008, with most of the revenue items contributing to the growth.

**Revenue distribution by item**

| *GEL thousands* | **2007** | **2008** | **Change** |
|---|---|---|---|
| Net interest income | 130,219 | 220,840 | 70% |
| Net fee & commission income | 41,748 | 49,969 | 20% |
| Net (losses) gains from for trading securities | 2,930 | (5,447) | NMF |
| Net gains from investment securities available-for-sale | 2,481 | 513 | -79% |
| Net (losses) gains from revaluation of investment properties | 16,362 | (389) | NMF |
| Net gains from foreign currencies | 26,710 | 47,134 | 76% |
| Net insurance revenue | 5,461 | 9,016 | 65% |
| Other operating income | 9,766 | 14,747 | 51% |
| Share of (loss) profit of associates | 137 | (713) | NMF |
| **Total revenue** | **235,814** | **335,670** | **42%** |

Net interest income rose by 69.6% from 2007 to GEL 220.8 million primarily due to the loan book (Loans to customers) growth of 21.7% and an increase of average lending interest rates from 15.0% for the loans in foreign currency and 21.2% for the loans in Lari in 2007 to 16.2% for the loans in foreign currency and 26.0% for the loans in Lari in 2008. The loan book growth was partially offset by a 63.4% increase in the interest expense, attributable in part to the 34.8% increase of non-deposit funding (Borrowings from international credit institutions).

Interest Income, comprising of interest income on the gross loans, interest income on the Bank's securities portfolio (interest income on Investment Securities), interest income on Amounts due from Credit Institutions and Finance Lease Receivables, grew by 66.7% to GEL 403.9 million in 2008. The increase in Interest income was attributable primarily to the 78.2% increase in interest income on loan book to GEL 363.0 million.

Interest income on Bank of Georgia's securities portfolio (interest income from Investment securities) decreased by GEL 1.3 million to GEL 23.2 million in 2008, a result of the reduction of debt securities held by the Bank from GEL 228.1 million in 2007 to GEL 34.9 million in 2008. The Bank's debt securities in 2008 comprised of Certificates of deposit of central banks and State debt securities, both Held-to-maturity, and Available-for-sale securities such as Corporate bonds and Ministry of Finance treasury bills. The decrease of the securities portfolio in 2008 was mostly due to the reduction of Certificates of deposit placed with the National Bank of Georgia at the end of 2007 (from GEL 146.0 million in 2007 to GEL 14.8 million in 2008) and State debt securities (from GEL 38.1 million in 2007 to GEL 8.0 million in 2008. The decrease of the Available-for-sale securities from GEL 42.4 million in 2007 to GEL 33.7 million in 2008 was mostly attributable to the disposal of the Corporate bonds in the aggregate value of GEL 18.1 million.

Interest earned on Amounts due from credit institutions increased by 7.9% to GEL 10.7 million in 2008, with the growth mostly driven by the interest earned from the interbank deposits (Time deposits with effective maturity of more than 90 days or overdue) placed at several international banking institutions. In 2008 Amounts due from credit institutions comprised of interbank deposits, short-term interbank loans and Obligatory reserve with the Central banks. Obligatory reserve with the Central banks decreased from GEL 144.6 million in 2007 to GEL 57.9 million in 2008, a result of the decrease of the obligatory minimum reserve requirement by the National Bank of Georgia from 13% to 5% as of October 2008. In 2008 Income from Finance lease receivables grew by 69.5% to GEL 7.0 million.

Interest expense, consisting of interest expense on the Amounts due to credit institutions, interest expense on deposits (Amounts due to customers) and interest expense on Debt securities issued, increased by 63.4% to GEL 183.1 million as of 31 December 2008. The growth resulted primarily from increased Interest expense on Amounts due from credit institutions and Interest expense on deposits. The increase in amounts Due to credit institutions was driven by the increased non-deposit funding (Borrowings from international credit institutions) in 2008. The growth of interest expense on deposits was attributed to increase of interest rates in 2008, which was in part due to competitive pressures causing the Bank to raise interest rates on customer accounts. In 2008 effective average interest rates paid on customer account balances were 8.2% for GEL deposits and 6.0% for foreign currency deposits (5.2% and 6.2% in 2007, respectively). The share of fixed term debt (Borrowings from international institutions and term deposits) in interest-bearing liabilities[3] increased from 66.4% in 2007 to 73.9% in 2008.

Bank of Georgia's Net Interest Margin (NIM) stood at healthy 10.3% in 2008, an increase of 170 basis points compared to 2007. The growth was driven by the increase of Net interest income, supported by larger proportion of higher yielding retail loans in the Bank's loan book. In 2008 Net interest income grew by 69.6% compared to the lower growth rate of total average interest-earning assets[4] which increased by 41.7% from GEL 1,508 million in 2007 to GEL 2,136 million in 2008. Total interest earning assets grew by 6.5% to GEL 2.2 billion, driven by the loan book growth in 2008. Cost of funds in 2008 increased from 7.4% in 2007 to 7.8% in 2008.

| *GEL thousands* | **2007** | **2008** | **Change** |
|---|---|---|---|
| Amounts due from credit institutions | 154,560 | 99,633 | -36% |
| Loans to customers | 1,675,681 | 2,039,022 | 22% |
| Finance lease receivables | 46,674 | 41,605 | -11% |
| Investment securities held-to-maturity | 192,464 | 22,845 | -88% |
| **Total interest earning assets** | **2,069,379** | **2,203,105** | **6%** |
| ***Average interest earning assets*** | ***1,508,016*** | ***2,136,242*** | ***42%*** |

Net fee and commission income rose by 19.7% to GEL 50.0 million. Net fee and commission income comprised fee and commission income from settlement operations, guarantees, letters of credit, cash collections, currency conversion operations, fees from brokerage and other advisory services and other fees. This growth was driven by the increases in sales of fee generating products and services listed above and an increase in the number of retail customer accounts in the first half of 2008.

The Bank's Other non-interest income grew 26.3% to GEL 91.8 million in 2008. Net losses from trading securities amounted to GEL 5.4 million in 2008, compared to the Net gain of GEL 2.9 million in 2007, a result of the loss on the proprietary trading book of Galt & Taggart Securities, reflecting the falling equity markets in Georgia and Ukraine against the background of the global financial crisis. Due to the declining real estate prices driven by the economic slowdown, the revaluation of investment properties mostly owned by the Bank through its subsidiaries resulted in the Net losses in the amount of GEL 0.4 million (Net gains of GEL 16.4 million in 2007). Gains from foreign currencies increased 76.5% to GEL 47.1 million in 2008. Net insurance revenue comprised of Net premiums earned less Net claims incurred increased by 65.1% to GEL 9.0 million, mostly a result of the increase in Net insurance premiums earned driven by the rise of the premiums earned on the Life and Health insurance.

The Bank's Share of loss of associates, where the Bank owned less than or equal to 50% equity interest, resulted in the total Share of loss of GEL 317 thousand in 2008 compared to the Share of profit of GEL 137 thousand in 2007.

Other Operating Income, which primarily comprised of other operating income of the Bank, fee income from the Bank's leasing, card processing, insurance and asset management operations, increased by 51.0% from GEL 9.8 million in 2007 to GEL 14.7 million in 2008.

**Expenses[5]**

In 2008 Bank of Georgia's expenses increased by 65.9% to GEL 212.3 million. Salaries and other employee benefits accounted for 51.2% of the Expenses (compared to 59.1% in 2007) and amounted to GEL 108.8 million, a 43.8% increase from 2007. The increase was mainly attributed to the headcount growth in the first half of 2008 and one-off expense of GEL 2.2 million related to the headcount reduction as a result of the restructuring that took place in December 2008. The number of personnel of the Bank reached 4,979 employees at the year-end 2008 compared to 6,064 employees as of 30 November 2008 and 4,459 employees as of 31 December 2007.

General and administrative expenses, which grew by 89.8% to GEL 68.7 million, comprised of expenses for occupancy and rent, marketing and advertisement, legal and other professional services, communications, repairs and maintenance, security, operating taxes, travel expenses, insurance expenses, office supplies, banking services, corporate hospitality and entertainment, penalties, personnel training and recruitment, and other General and administrative expenses. The main contributors to the increase in the General and administrative expenses in 2008 were Occupancy and rent related expenses driven by the growth of the Bank's operations in the first half of 2008 and Marketing and advertising expenses attributed to the post-Conflict public relations and advertising campaigns.

Depreciation increased by 108.2% to GEL 20.5 million, mostly due to the following factors: In 2008 depreciation expense included the depreciation expense of BG Bank for the full year compared to only fourth quarter depreciation expense of the BG Bank in the 2007 consolidated results; 2008 depreciation expense included six month depreciation expense of the BNB Bank, acquired by the Bank in 2008; Revaluation gain from Property and Equipment of the Bank in the amount of GEL 70 million recognized in 2007 started to depreciate in 2008.

Impairment charge on other assets and provisions increased to GEL 4.6 million in 2008, compared to reversal of impairment on other assets and provision in 2007 of GEL 0.4 million. The increase was driven by the Provision for guarantees and commitments in the amount of GEL 3.7 million in 2008.

In 2008 Cost / Income ratio increased and amounted to 63.3% as compared to 54.3% in 2007.

The increase in Loan impairment charge from GEL 17.4 million in 2007 to GEL 122.8 million in 2008 was attributed to extraordinary Loan impairment charges on the Bank's loan book in Georgia largely due to the Conflict (approximately GEL 110.6 million in 2008 compared to approximately GEL 17.8 million in 2007) and Loan impairment charges on the loan book of BG Bank in Ukraine (approximately GEL 18.0 million in 2008 compared to approximately GEL 0.1 million for the fourth quarter in 2007[6]), a result of deteriorating market environment in Ukraine in the second half of 2008. As a result of the increased Loan impairment charges, cost of risk grew from 1.4% in 2007 to 6.3% in 2008.

Income tax benefit for 2008 amounted to GEL 1.0 million, due to the Loss before income expense for the year compared to Income before income tax expense in 2007. Income tax charge in 2007 amounted to GEL 14.1 million.

## Balance Sheet highlights

**Assets**

As of 31 December 2008 Bank of Georgia had Total assets of GEL 3,259 million, as compared to Total Assets of GEL 2,954 million in 2007, an increase of 10.3%. The increase was mainly attributable to the loan book (Loans to customers) growth which stood at GEL 2,039 million, an increase of GEL 363.3 million, or 21.7% growth from 2007.

Cash and cash equivalents, which accounted for 12.2% of Total assets, decreased by 2.0% to GEL 397.6 million in 2008, mostly a result of the decrease in the amount of short-term interbank deposits. The average liquidity ratio, based on the NBG standards, was 31.4% in 2008, higher than the NBG's 20% requirement.

In 2008 gross loan book increased by 25.9% to GEL 2,146 million. The growth was mostly attributable to the increased commercial, consumer and residential mortgage lending which grew 11.6% to GEL 1,045 million, 49.9% to GEL 496.2 million, and 65.7% to GEL 391.6 million, respectively. The majority of lending was accounted for by commercial loans in 2008.

**Gross Loans**

| | 2007 | 2008 | Change |
|---|---|---|---|
| Commercial loans | 936,668 | 1,044,959 | 12% |
| Consumer loans | 331,082 | 496,197 | 50% |
| Residential mortgage loans | 236,397 | 391,606 | 66% |
| Micro loans | 152,436 | 151,313 | -1% |
| Gold – pawn loans | 28,158 | 46,374 | 65% |
| Others | 19,869 | 15,174 | -24% |
| **Loans to customers, gross** | **1,704,610** | **2,145,623** | **26%** |
| Less – Allowance for loan impairment | (28,929) | (106,601) | 268% |
| **Loans to customers, net** | **1,675,681** | **2,039,022** | **22%** |

Private companies accounted for 48.0% of total gross loan book (includes portion of Micro Loans), increasing to GEL 1,029 million or 6.4% in 2008. Loans to individuals of GEL 1,080 million grew 54.4% compared to 2007, and representing 50.3% of total gross loans. Loans extended to State-owned entities in the amount of GEL 36.7 million, or a 3.8% decrease from 2007, continued to hold the smallest share with 1.7% of the total gross loan book.

Bank of Georgia maintained the diversified loan book across various sectors of the economy. By the end of 2008, ten largest borrowers accounted for 11% of the total gross loan book, down from 13% in 2007.

Allowance for the loan impairment increased from the prior year due to an increase in estimated losses predominantly for consumer and commercial loans due to the effects of the weakening of economic environment. As a result, the Allowance for the loan impairment amounted to GEL 106.6 million, compared to GEL 28.9 million in 2007. Allowance for the loan impairment to gross loans ratio in 2008 increased to 5.0% from 1.7% in 2007.

**Allowance for loan impairment**

| | 2007 | 2008 | Change |
|---|---|---|---|
| Commercial loans | 11,120 | 45,754 | 311.5% |
| Consumer loans | 13,158 | 42,155 | 220.4% |
| Residential mortgage loans | 2,757 | 7,969 | 189.0% |
| Micro loans | 1,676 | 4,921 | 193.6% |
| Others | 218 | 5,802 | 2561.5% |
| **Total** | **28,929** | **106,601** | **268.5%** |

As of 31 December 2008 the non-performing loans (NPLs) accounted for 3.0% (compared to 1.5% in 2007) of total loans (NPLs are more than 90 days overdue loans including principal and interest payment).

The Bank's loan book remains highly collateralized, with 87.3% of the total volume of gross loans to clients secured by mostly property inventory and trade receivables for commercial lending and by mortgages over residential properties for individual lending.

**Liabilities**

Total liabilities increased 6.0% to GEL 2,540 million, primarily due to the 34.9% increase in the Amounts due to credit institutions to GEL 1,217 million as of 31 December 2008. The Bank's borrowings in 2008 include the new loans from FMO, DEG, and OPIC, and the Loan Passthrough Notes issued by the Bank.

Amounts due to Customers, or deposits, decreased by 12.0% to GEL 1,193 million in 2008. The decrease of deposits in Georgia was primarily the result of retail and corporate deposit withdrawals during the Conflict and slow deposit inflows in its aftermath. The decrease of deposits in Ukraine was attributed to the worsening of economic environment and the devaluation of Ukrainian Hryvna against Georgian Lari. The decrease in deposits was driven by 16.9% decline in current accounts to GEL 612.5 million, while time deposits decreased by 6.1% to GEL 580.6 million as of 31 December 2008.

Private companies accounted for 52.6% of the deposits, decreasing to GEL 627.1 million or 5.4% in 2008. Individual deposits of GEL 495.8 million, decreased 15.0% compared to 2007, comprising 41.6% of total deposits. Deposits of State-owned entities in the amount of GEL 70.3 million, or a 35.9% decrease from 2007, continued to hold the smallest share with 5.9% of total deposits.

As of 31 December 2008 ten largest customers accounted for 27% (or GEL 323.7 million) of the deposits.

**Equity**

As of 31 December 2008, authorized share capital comprised of 39,835,619 ordinary shares, of which 31,253,283 were Ordinary shares issued and fully paid compared to 27,154,918 Ordinary shares issued and fully paid as of 31 December 2007.

The increase of the Ordinary shares issued and fully paid was primarily attributed to the offering of four million new ordinary shares in the form of Global Depositary Receipts (GDRs) by the Bank in February 2008. In addition, the ordinary share issuance during 2008 were related to issuance of 89,000 ordinary shares in relation to the acquisition of Europace insurance company in 2005.

**Regulatory capital and Capital adequacy (BIS)**

Bank of Georgia maintained a well-capitalised position, based on Tier I and Total Capital Ratios (BIS) as of 31 December 2008 and 31 December 2007.

| *GEL thousands, unless otherwise noted* | **2007** | **2008** |
|---|---|---|
| Ordinary shares | 27,155 | 31,253 |
| Share premium | 312,434 | 468,732 |
| Retained earnings | 124,928 | 150,903 |
| **Tier I capital** | **464,517** | **650,888** |
| General loan loss provisions | 21,861 | 28,607 |
| Revaluation reserves | 50,515 | 46,698 |
| Subordinated term debt | 87,538 | 157,535 |
| **Tier II capital** | **159,914** | **232,840** |
| Deductions from capital | (214,615) | (249,373) |
| **Total capital** | **409,816** | **634,355** |
| Risk weighted assets | 1,859,330 | 2,560,696 |
| **Tier I capital adequacy ratio** | **25.0%** | **25.4%** |
| **Total capital adequacy ratio** | **22.0%** | **24.8%** |

Total capital was GEL 634.3 million at 31 December 2008, compared with GEL 409.8 million in 2007, an increase of GEL 225.5 million. The increase in Total capital was largely attributable to the 40.3% increase of Tier I capital to GEL 650.9 million driven by sale of four million ordinary shares of the Bank in February 2008. The Bank's Tier II capital 45.6% growth to GEL 232.8 million was a result of the issuance of the subordinated term loan in 2008.

Risk-weighted assets increased by 37.7% to GEL 2,561 million in 2008 from GEL 1,859 in 2007, largely due to the reduction of the risk weighing of foreign currency loan from 200% in 2007 to 175% in 2008 by the National Bank of Georgia.

National Bank of Georgia requires capital adequacy calculation based on the NBG methodology, which is done on a standalone basis. Based on the NBG calculation method, Bank of Georgia's Tier I and Total Capital Ratios as of 31 December 2008 were at 16.6%, and 13.5%, respectively, and above the statutory minimum of 8% for Tier I and 12% for Total Capital. In 2007, Tier I and Total Capital, based on the NBG methodology, amounted to 13.2% and 13.1%, respectively.

## Shareholders

As of 31 December 2008, Bank of Georgia continued to maintain a diversified shareholder base, with more than 80 Western institutional shareholders owning approximately 85% of the Bank's equity both through Global Depositary Receipts (GDRs) and ordinary shares. As of 31 December 2008, the following companies held more than five % of Bank of Georgia shares.

| December 31, 2008 | |
|---|---|
| Bank of New York (Nominees), Limited | 77.45% |
| Firebird Avrora Fund | 4.68% |
| Firebird Republics Fund | 4.58% |
| East Capital Financial Institutions | 4.37% |
| Others (less than 5% individually) | 8.92% |
| **Total** | **100.00%** |

As of 31 December 2008 the members of the Supervisory Board and Management Board owned 468,827 shares of Bank of Georgia.

| | December 31, 2008 | |
|---|---|---|
| **Shareholder** | **Shares held** | **GRDs vested** |
| Sulkhan Gvalia, Deputy CEO, Chief Risk Officer | 166,907 | 26,857 |
| Irakli Gilauri, CEO | 136,303 | 134,716 |
| Nicholas Enukidze, Chairman of the Supervisory Board | 75,377 | 74,332 |
| Ramaz Kukuladze, Deputy CEO, Corporate Banking | 52,092 | 52,092 |
| Avto Namicheishvili, Deputy CEO, Legal | 12,489 | 11,667 |
| Allan Hirst, Vice Chairman of the Supervisory Board | 10,685 | 0 |
| Irakli Burdiladze, Chief Operating Officer | 10,036 | 9,666 |
| Kakha Kiknavelidze, Member of the Supervisory Board | 4,938 | 4,000 |
| **Total** | **468,827** | **313,330** |

## EVENTS SINCE YEAR-END 2008

**Senior appointments**
In February 2009 Mikheil Gomarteli, formerly Co-Head of Retail Banking in Georgia was appointed Deputy Chief Executive Officer overseeing Retail Banking operations in Georgia.
Shahram Sharifi, formerly Global Head of Retail Banking was appointed as Head of Strategic Projects.
Constantine Tsereteli, formerly Co-Head of Retail Banking in Georgia was seconded for a year as a Deputy Chief Executive Officer of BNB in Belarus.

**Wholesale debt funding**
As of 17 March 2009 the Bank drew down US$ 200 million of the IFC and EBRD financing package. The financing package was comprised of:

IFC facility

- US$50 million senior loan at LIBOR +5.5% annual interest rate and maturity of 55 months
- US$24 million subordinated loan at LIBOR +10% annual interest rate and maturity of 120 months
- US$26 million subordinated, convertible loan at LIBOR +8% annual interest rate and maturity of 120 months

EBRD facility

- US$50 million senior loan at LIBOR +5.5% annual interest rate and maturity of 61 months
- US$24 million subordinated loan at LIBOR +10% annual interest rate and maturity of 120 months
- US$26 million subordinated, convertible loan at LIBOR +8% annual interest rate and maturity of 120 months

**Repayment of wholesale debt funding**

The Bank repaid a total of US$199.5 million of the wholesale debt financing, including a US$65 million loan facility arranged by Merrill Lynch repaid in January 2009 and US$ 43.5 million, the second tranche of the syndicated loan a US$43.5 million received by the Bank in August 2007, repaid in February 2009.

The Bank repurchased Loan Passthrough Notes issued in June 2008 and maturing in June 2009 with the face value of US$91 million.

As of 30 April 2008 repayment schedule for the Bank's key wholesale debt funding facilities was as follows:

| *US$ mln, unless otherwise noted* | **2009** | **2010** | **2011** | **2012** |
|---|---|---|---|---|
| WorldBusiness Capital | 0.8 | 1.1 | 1.1 | 1.1 |
| WBC (Georgian Leasing Company) | 0.5 | 0.7 | 0.9 | 0.5 |
| Loan passthrough notes | 49.0 | - | - | - |
| FMO | 1.1 | 2.3 | 2.3 | 2.3 |
| Syndicated Loan Tranche C (ADB) | 8.3 | 16.7 | - | - |
| Eurobonds | - | - | - | 200.0 |
| OPIC | - | 3.2 | 3.2 | 3.2 |
| IFC 2013 | - | - | 16.7 | 16.7 |
| EBRD 2014 | - | - | 14.3 | 14.3 |
| **Total** | **59.8** | **24.0** | **38.5** | **238.0** |

## Risks and Uncertainties

The Bank is subject to the following Risks and Uncertainties.

Emerging Market Risks

Risks Relating to the Bank's Business

- Current Economic and Market Conditions
- Dependence on Banking and Other Licenses
- Geographical Diversification
- Liquidity Risks
- Exposure to Credit Risk of Corporations and Individuals
- Allowance for Impairment Loss Risk
- Enforcement of Security
- Foreign Exchange and Currency Risk
- Interest Rate Risk
- Risks Associated with Cost-Control Measures
- Risks Associated with Planned Disposals
- Competition
- Technological Risks
- Restrictive Covenants
- Dependence on Key Management and Qualified Personnel

Risks Related to Georgia and the Other Principal Markets

- Political Risk
- Regional Tensions
- Economic Instability
- Dependence on Donor Pledges
- Currency Regulation
- Developing Legal Systems
- Risks Related to Money Laundering and/or Terrorist Financing
- Uncertainties of Tax Systems
- Statistical Information
- Possible non-enforceability of foreign judgments and arbitral awards

- Volatility of the Trading Market

*The material presented above is not a substitute for reading the full Annual Report and Accounts (the "Annual Report") and Accounts for the year ended 31 December 2008 (the "Accounts'). The Annual Report and the audited consolidated financial results will be available on the Bank's website at http://www.bog.ge/ir/. The Accounts were published as part 1 of the Annual Financial Report.*

[1] Market date according to the information published by the National Bank of Georgia (NBG)
[2] Revenue equals sum of Net interest income, Net fee and commission income and Other non-interest income less Net insurance claims incurred
[3] Interest-bearing liabilities equal sum of Amounts due to credit institutions, Amounts due to customers and Debt securities issued
[4] Average interest earning assets are calculated as a sum of interest earning assets at YE 2007 and interest earning assets at YE 2008 divided by two
[5] Expenses (Costs) comprise of Other non-interest expense less Insurance claims incurred
[6] BG Bank's (formerly UBDP) fourth quarter results were included in the Bank's 2007 consolidated results